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ECONOMIC INTELLIGENCE WEEKLY REVIEW

8 December 1978

USSR: The Economy in 1979—Higher Goals and Greater Criticism 1 25X1

Soviet planners have fashioned an overly optimistic and exceptionally taut program for the economy in 1979; frustrated by the inability of economic officials to correct waste and mismanagement, President Brezhnev has put them on notice to produce—or else. 25X1

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Strikes have again seriously cut oil production and exports, and the practically complete shutdown of the banking sector is crippling local business activity and threatening to interrupt vital food imports. (U)

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Articles

USSR: THE ECONOMY IN 1979—HIGHER GOALS AND GREATER CRITICISM [redacted] 25X1

Soviet planners have fashioned an overly optimistic and exceptionally taut program for the economy in 1979, despite continued slow growth in key sectors and the absence of obvious solutions to chronic problems. The 5.7 percent advance planned for industry is to be led by the food processing, soft goods, and machinery sectors. Moscow apparently is counting on a major acceleration in addition to new capacity in the next few months—a feat we do not believe they can achieve. The low oil production goal for 1979 implies that average monthly output may have peaked. After two years of sharp declines in the growth of investment, the leaderships seems to be returning to investment as the principal engine of growth. [redacted] 25X1

USSR: The 1979 Plan in Perspective

Percent Growth [1]

	Plan 1976-80	Actual 1976-78	Required 1979-80 [2]	Plan 1979
GNP	5.0	3.6	7.2	4.6
Industry	6.3	3.8	10.3	5.7
Coal	2.8	0.9	5.7	4.3
Oil	5.5	5.2	5.9	3.6
Gas	8.5	8.8	8.0	8.4
Electric power	5.8	5.0	7.2	4.8
Crude steel	3.6	2.3	5.5	NA
Rolled steel	3.6	2.1	5.7	3.4
Steel pipe	4.4	3.3	6.0	3.3
Construction materials	5.4	1.4	11.7	NA
Of which:				
Cement	3.4	1.4	6.6	2.2
Chemicals	10.3	4.9	18.8	NA
Machinery	8.9	6.1	13.2	8.2
Consumer nondurables	4.6	1.6	9.4	5.5
Light industry	4.9	2.7	8.3	4.6
Food industry	4.4	0.5	10.5	6.3

[1] Average annual rate.
[2] Annual rate required to reach the 1980 goal in the original five-year plan.

[redacted] 25X1

Note: Comments and queries regarding the ***Economic Intelligence Weekly Review*** are welcome. For the text, they may be directed to [redacted] of the Office of Economic Research, [redacted] for the Economic Indicators, to [redacted] 25X1 25X1 25X1

Prospects for fulfilling the new goals are poor. No new approaches to longstanding problems have been announced; the plan and budget speeches reiterate the old exhortations to reduce waste in construction and in the use of materials and manpower. At a Party plenum last Monday, Brezhnev himself delivered a frank appraisal of the waste and inefficiency in all sectors and castigated economic management from the top on down. Brezhnev's frustration with the inability of ministry and enterprise officials to implement economic directives and reverse declining growth rates probably prompted the unprecedented publication of his plenum remarks, putting government officials at all levels on notice that improvement will come—or else. [redacted] 25X1

Leadership Tensions—On the Rise

The Politburo review of the 1979 plan in early November was a stormy session. This is clear not only from Brezhnev's report to the plenum but also from the speech of planning boss Nikolay Baybakov. The latter found it necessary to repeat Brezhnev's caution that the debate over resource allocation decisions must end once the draft plan had been approved. [redacted] 25X1

Premier Kosygin apparently has been placed on the defensive because of problems connected with the 1979 plan. A Soviet official explained [redacted] 25X1
25X1 [redacted] that Kosygin had been in a foul mood when he met with them on 16 November—less than two weeks before the plan was unveiled—because of an acrimonious meeting that morning on the 1979 budget. The Premier had been the target of considerable criticism presumably because the draft economic plan again failed to come to grips with the USSR's longstanding economic problems. Although Kosygin's status remains unchanged, the removal of his long-time deputy Kirill Mazurov from the Politburo—regardless of the stated reason of poor health—seems to reflect the Party dissatisfaction with the overall management of the economy. [redacted] 25X1

Industry—the Main Source of Growth

The sharp rise planned for industry reflects Soviet expectations of large gains in processed food production resulting from this year's record grain harvest. In addition, industrial output is to be buoyed by an 8.2-percent increase in machinery production—a totally unrealistic goal, given the ragged performance of this sector during the past three years and the uncertain supply of metals and energy to the sector. The goals for growth in oil and coal are lower than last year's; no target for crude steel production has been announced. Brezhnev indicated that investment resources would be redistributed to favor fuels, metallurgy, and transport. Such a program, even if successful, will not pay off until 1980 or beyond. [redacted] 25X1

The leadership is counting on a sharp increase in labor productivity as the main source of industrial growth. To offset the continuing decline in the number of persons reaching working age, the Soviets have been trying to substitute materials-handling equipment for manual labor. This strategy, in vogue since 1973, so far has had no noticeable effect. 25X1

Energy—Trouble on the Horizon

The year-over-year oil production goal for 1979—593 million tons (11.9 million b/d), a 3.6-percent increase—reveals a sharp slowdown in output growth and constitutes the first clear indication that average monthly oil production may already have peaked. This slowdown is reflected in Gosplan Chairman Baybakov's admission that the energy production planned for 1979 will meet the economy's requirements only if energy users adopt strict conservation measures and improve technical efficiency. Brezhnev earlier had admitted at the plenum that no important energy savings have been made to date. 25X1

The annual increase planned for oil is the smallest absolute rise since 1969 and the lowest rate of growth in the post-World War II period. This plan implies an average monthly output in 1979 of 49.4 million tons, roughly the level achieved by October 1978. Because of the small rise anticipated in oil production for the year as a whole, the Soviets would have to reduce oil exports if economic growth targets were reached, perhaps by as much as 100,000 b/d. 25X1

As in recent years, the oil production increase in 1979 is planned to come from West Siberia. However, the increment from these fields declined for the first time in 1978. Any reversal of this trend is unlikely as the giant Samotlor oilfield already has reached its peak, and the smaller fields are not being developed as rapidly as planned. 25X1

The absolute annual increment implied for natural gas production—32 billion cubic meters (550,000 b/d oil equivalent)—is the largest annual increase ever. Moscow apparently intends to push gas production harder than originally planned during the next two years to compensate for slower-than-expected growth in oil production. The new gas goal appears unrealistic, however, in light of the lagging pipeline program and general construction bottlenecks in West Siberia. 25X1

The 1979 coal plan implies an increase of 30 million tons. Soviet coal production this year probably will not exceed the 722 million tons produced last year. The 4.8-percent increase planned for electric power is unchanged from the rate planned for 1978. 25X1

Investment—Back to the Old Way

Investment in new plant and equipment next year is projected to increase 4.5 percent compared with the low rates of 3.0 percent and 3.4 percent planned for 1977 and 1978, respectively. Investment resources had been concentrated on finishing projects already started. So far, this strategy has not paid off. Brezhnev was particularly critical of the construction industry in his plenum speech, claiming that investment funds are still scattered on too many projects and that the volume of unfinished construction continues to rise. However, the need to step up development of West Siberia as well as to continue modernizing industrial plant and equipment, no doubt requires the larger increase in investment. 25X1

Agriculture—Hoping Luck Holds

Farm output in 1979 is to increase by 5.8 percent, equivalent to the total increase achieved in the last two years. Coming on the heels of this year's record grain crop of 235 million tons, an increase of this size will be difficult to achieve. Although no goals for output of specific crops or livestock products were announced, the leadership must be counting on substantially improved output of nongrain crops—particularly sugar beets, sunflower seeds, and potatoes—all of which fell short of planned production this year. 25X1

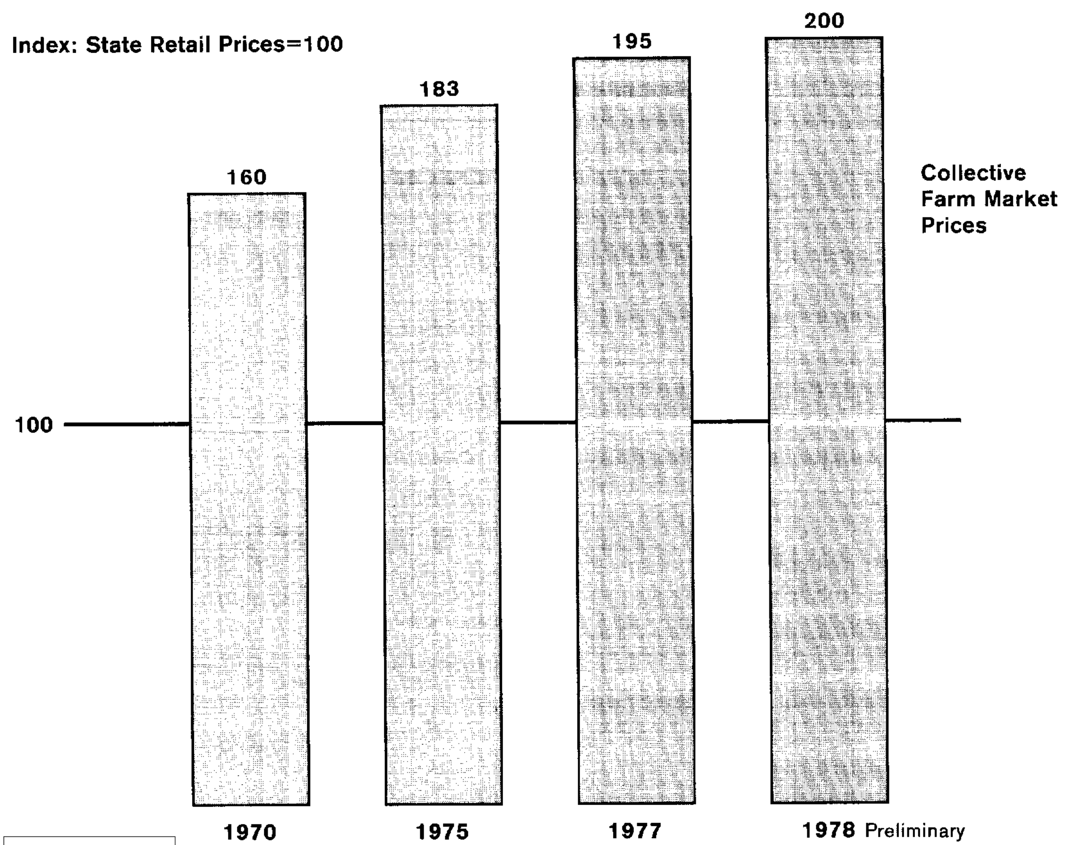
The livestock sector should benefit markedly from this year's bumper grain crop, especially if the USSR maintains a high level of grain imports. State support for private livestock holdings will continue. Baybakov admitted that plans for procurement of a number of livestock products in 1979 would be lower than those established in the five-year plan. He blamed the necessary cutback on failure to meet plans for expanding livestock herds and on inadequate feed resources. 25X1

Total investment in agriculture is to increase by nearly 4 percent next year. In a turnabout from the Party plenum speech in July, however, Brezhnev now is indicating that some reallocation of agriculture's investment resources to the food-processing industry is in the offing. Much waste, especially in bumper harvest years, results from past failures to put sufficient investment resources into storage, distribution, and processing facilities. This reallocation decision no doubt was highly contentious. Brezhnev did not indicate whether it would apply only to the remaining years of the current five-year plan or whether it would be carried over to the next one also. 25X1

The Consumer—More Promises

The plan and budget speeches contained considerable discussion of the need to satisfy consumer demands more fully. Brezhnev, in a rare admission, publicly voiced

USSR: Growing Gap Between the Average Level of State Retail Prices and Collective Farm Market Prices for Food



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concern over the effects of food shortages on the mood of the public; Baybakov noted the direct connection between a satisfied consumer and the increased labor productivity required to spur economic growth.

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While the 1979 plan may give a boost to consumer morale, the expected improvement in production of consumer nondurables will be more the result of this year's good grain harvest than a consequence of a policy shift. Real per capita income is slated to rise by only 3.3 percent—a slower rate than actually achieved in 1976-78. The growth planned for average monthly wages has fallen below 2 percent for the first time ever. Meat supplies, which have been tight since the poor harvest of 1975, will improve a little, but shortages will continue. Pressure on the available supplies of perishable foods such as meat, fruit, and vegetables is evident in the growing difference between the average level of prices in state stores, largely unchanged since 1962, and prices in collective farm markets. 25X1

Defense—Resources for Continued Expansion

The 1979 production plans—particularly the machinery plan—provide ample room for sizable increases in defense spending. Brezhnev was quick to note that, despite an increase in civilian investment next year, the country's defense capabilities would be maintained at the "proper" level. Moscow's recent efforts to increase defense spending throughout the Warsaw Pact suggest that military might is still the frontrunner in Soviet resource allocation decisions. Failure to meet many of the 1979 plan goals would threaten increased tensions among defense and civilian claimants for national output. 25X1

Management—An Old Nostrum

Although no specific solutions were proferred, managerial and organizational issues stand high on the leadership's agenda for 1979. Brezhnev has charged the Council of Ministers with preparing yet another set of measures "to streamline the entire economic mechanism." The resulting proposals, rather than lightening the bureaucratic overburden, probably will call for tightened control by central bodies over implementation of economic decisions. 25X1

Trade With West—Conservative Approach

The 1979 plan envisions a third consecutive year of slowed growth in trade with the West. This policy reflects (a) the conservative financial measures adopted since 1977 to reduce the hard currency payments deficit, (b) the unresolved difficulties in absorbing Western machinery and equipment already purchased, and (c) the recognition by the leadership that oil exports to the West may have to be cut. 25X1

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IRAN: ECONOMIC DISARRAY CONTINUES 25X1

Oil workers responding to the call of opposition religious leader Ayatollah Khomeini to resume their strike have again seriously cut oil production and exports. The practically complete shutdown of the banking sector for the past fortnight is severely hampering local business activity and threatening to interrupt vital food

* This article was prepared in the Iran Analytical Center.

imports. An increasing portion of urban business is grinding to a halt, with the government unable for the moment to reverse the process because of the highly charged political and religious atmosphere. 25X1

Oil Production and Exports—Down Again

Crude production, which had stabilized at about 5.9 million b/d during the days immediately preceding Moharram (the traditional month of mourning for Iran's Shia Muslims), fell to about 2.8 million barrels on 7 December; exports, after recovering to 5.2 million b/d, slumped to about 2.1 million barrels. Oil industry officials fear that output could again fall quickly to the 1.0 million b/d to 1.5 million b/d level of early November. The government is unlikely to crack down on strikers prior to the emotionally charged religious holiday of Ashura on 11 December. Although Iran's oil production and export facilities, like similar installations elsewhere in the world, are vulnerable to sabotage, Western oil industry sources believe that Iranian security arrangements are as good as can be provided. 25X1

All of Iran's liquid natural gas plants also have been shut down, forcing a halt in gas exports to the USSR. These exports supply only 3 percent of the USSR's total gas consumption; they, however, account for one-fourth to one-third of total energy consumption in the Soviet Transcausasus region. Within Iran itself, shortages of bottled gas will worsen if plants remain shut for more than a few days. 25X1

Consumer Supplies Adequate—For the Moment

The general strike of 2 December caused sporadic shut downs of stores and shops throughout the country. Many stores reopened the following day, only to shut down again on 4, 5, and 6 December. At the start of Moharram (2 December), food supplies were reported to be ample although prices of some staples, such as bread and cooking oil, had risen substantially. This presumably reflected a combination of hoarding and efforts by middlemen and shopkeepers to raise profits. While port and customs officials—most of whom are engaged in some sort of job action—continue to clear only perishables and medicines, no serious food shortages have yet been reported. Shortages will worsen quickly if shops remain closed and owners liquidate their stocks. 25X1

We do not know how long government food stockpiles can last. Once these stocks are drawn down, the supply could become grave. US and other food exporters who provide grains, sugar, and vegetable oils already are canceling contracts for January delivery to Iran because the Iranian Central Bank has not issued the necessary letters of credit. Moreover, if the customs slowdown continues to hinder imports of animal feeds, domestic production of milk, meat, and poultry will be seriously affected in future months. 25X1

Financial Sector at Standstill

Iran's banking and financial system, after suffering sporadic work stoppages during the last two months, is now crippled by widespread closures. The shutdowns threaten paralysis of business activity and widespread bankruptcies. The closure since 25 November of the Central Bank and the Bank Melli—the major commercial bank in Iran, which handles all government collections and disbursements—has almost totally eliminated foreign transactions, seriously delayed check-clearing operations, and created severe cash flow problems. More than 400 bank branches have been damaged or destroyed, with the loss of a considerable volume of bank records. Local and resident foreign businessmen will be unable to pay suppliers or meet payrolls unless banking activity is soon restored. 25X1

The US Embassy in Tehran has reported widespread fears that unless strong emergency measures are taken soon to resolve the bank strikes, the situation will deteriorate rapidly during next week, which includes the holiday of Ashura. The Central Bank is unlikely to take action on its own or to call for military intervention. When the banks do reopen, the government will have to tighten controls on the size of individual withdrawals to prevent further runs on the system. 25X1

Economic Policymaking Frozen

Elsewhere, senior officials of ministries responsible for economic policymaking are preoccupied with self-preservation and keeping their organizations intact. Policy review, planning, and day-to-day decisionmaking have been shelved in many instances. 25X1

Although a revised budget for the current fiscal year has been prepared, it probably lacks specific estimates of the costs of public sector wage and benefit hikes or of the losses incurred through nonpayment of taxes and reduced oil revenues. Moreover, because the present military government views its status as temporary, a meaningful budget for the next fiscal year (beginning 21 March 1979) is not likely to be presented in the near future. 25X1

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NIGERIA: BALANCE-OF-PAYMENTS CONSTRAINTS EMERGING (U)

Declining oil revenues and soaring import bills have steadily eroded the healthy payments surpluses Nigeria accumulated in the aftermath of the 1973/74 oil price hikes. This year Lagos is financing a current account deficit of $3.5 billion to $4.0 billion (the largest in its history) by a rundown in official reserves and by large Eurodollar borrowings. Although the government has ordered a sharp cutback in nonessential imports, its resolve to enforce the measure could weaken in the face of stiff public opposition and possible civil unrest. In the near term, moreover, economic policy decisions will take a back seat to the military government's preoccupation with the proposed return to civilian rule. In these circumstances, external financing to bridge persistent payments deficits could be difficult to obtain, and a new government might be forced to take further unpopular austerity measures next fall. 25X1

The Growing Current Account Gap

Buoyed by the quadrupling of oil prices in 1973/74, Lagos embarked on an ambitious plan of rapid development, which aimed at establishing Nigeria as black Africa's foremost industrial power with an independent, diversified economy. The resulting government spending boom on costly, sometimes wasteful, development projects has been the main cause of the dramatic rise in imports of goods and services since 1974. In 1975-77, the value of merchandise imports climbed at an average annual rate of more than 50 percent. A fourfold increase in food imports—reflecting the low development priority accorded agriculture—and a sharp rise in consumer spending have also contributed to the mounting trade imbalance. At the same time, the deficit on services has doubled, thanks to rising freight and insurance payments on imports and inflated fees for private consulting services. 25X1

As imports have mounted, oil revenues—90 percent of export earnings—have lagged. The 1976-80 development plan projected peak crude production of 3 million b/d, but output has declined from a 1974 high of 2.3 million b/d to an estimated 1.8 million b/d in 1978. The prolonged slump is largely due to the government's ill-conceived pricing policies and to the increased availability of cheaper North Sea and Alaskan oil. Until recently, Lagos failed to keep up with price reductions of traditional competitors, such as Libya and Algeria, making Nigerian light crude among the most expensive in the world. Moreover, Lagos' unilateral price increases and higher taxes trimmed company profits and caused investment in the oil sector to fall off; sustainable production capacity fell from 2.5 million b/d in 1974 to the current 2.3 million b/d. 25X1

Reflecting the divergence in export and import performance, Nigeria's current account balance fell from a surplus of $5 billion in 1974 to a $1 billion deficit in 1977.

Nigeria: Balance of Payments

Billion US $

	1973	1974	1975	1976	1977	1978 [1]	1979 [2]
Trade balance	2.0	7.2	3.0	3.6	3.3	0.5	1.9
Exports (f.o.b.)	3.6	9.7	8.3	10.1	12.0	10.1	11.3
Of which:							
Oil	3.0	9.0	7.7	9.4	10.8	9.0	10.2
Imports (f.o.b.)	1.6	2.5	5.3	6.5	8.7	9.6	9.4
Net services and transfers	−2.0	−2.3	−3.1	−3.9	−4.2	−4.3	−3.5
Freight and insurance	−0.2	−0.2	−0.8	−1.3	−1.7	−1.9	−1.8
Other transportation	Negl	Negl	−0.1	−0.3	−0.1	−0.1	Negl
Travel	Negl	−0.1	−0.2	−0.4	−0.3	−0.4	−0.3
Investment income	−1.0	−0.6	−0.1	−0.3	−0.3	−0.4	−0.2
Other government services	Negl	−0.4	−0.5	−0.5	−0.5	−0.5	−0.4
Other private services	−0.7	−0.8	−1.2	−1.0	−1.2	−0.8	−0.6
Private transfers	−0.1	−0.1	−0.1	−0.1	−0.2	−0.2	−0.2
Current account balance	**Negl**	**4.9**	**−0.1**	**−0.3**	**−1.0**	**−3.8**	**−1.7**
Capital account balance	0.3	Negl	0.2	Negl	0.2	1.9	
Direct investment	0.4	0.3	0.4	0.4	0.2	0.1	
Other government	−0.1	−0.1	−0.2	−0.4	Negl	1.8	
Other private	Negl	−0.2	Negl	Negl	Negl	Negl	
Change in foreign reserves	0.3	5.0	Negl	−0.4	−0.9	−1.9	
Foreign reserves, yearend	0.6	5.6	5.6	5.2	4.3	2.4	

Source: *International Financial Statistics.*
[1] Estimated.
[2] Best case scenario.

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This year Lagos faces a record $3.5 billion to $4.0 billion deficit; imports for the first half of the year were up an estimated 25 percent over the same period last year while oil exports averaged only 1.6 million b/d compared with 2.1 million b/d in first half 1977. To help finance the deficit, $2.6 billion in foreign exchange reserves have been drawn down so far, leaving only about six weeks' worth of import payments in the public coffers—the lowest level in four years. The government also arranged a $1 billion Eurodollar loan in January, which was completely drawn down by May, and a $750 million Eurodollar loan, which can be drawn on this month. 25X1

Moves Toward Stabilization

Lagos haa taken a number of steps to boost export earnings and ward off serious balance-of-payments problems. These include:

- Oil price cuts and discounts to third-party customers who sign long-term contracts for specified crudes and to producing companies that raise liftings beyond the second quarter (1978) average.

- Renegotiation of foreign contracts for major infrastructure projects to stretch out payment periods.

- Import bans announced in April and October covering approximately 60 consumer items and requiring licensing for a number of others.

- Restrictions on repatriation of foreign company profits and on proceeds from equity sales made in compliance with the 1977 indigenization decree, which requires all businesses to have at least 40-percent local ownership by 1979. 25X1

Although coming too late to offset the large deficits run up previously in the year, these measures have begun to show results and should help moderate next year's deficit if pursued by the government. Oil production began to pick up in the third quarter and has now recovered to last year's level of 2.1 million b/d. Imports should soon show signs of slowing as the more extensive October bans take effect. The services deficit will improve as the slowdown in imports reduces freight and insurance charges and as restrictions on profit repatriation lower cash outflows. Assuming a 10-percent oil price increase in January 1979 and an optimistic 10-percent cutback in import volume, the current account deficit could be halved next year. 25X1

Austerity and Slower Growth Ahead

Even with these measures, balance-of-payments constraints on economic growth will likely persist for some time. Far from establishing a multiproduct economy, Lagos will still have to rely on oil for the bulk of its export earnings and government revenues for many years. Petroleum output is expected to average only 2.3 million to 2.4 million b/d between now and the mid-1980s, even if exploration and drilling speed up. Crude exports probably will remain at their 1975-77 level of 2 million b/d as an increasing share of production will be diverted to meet domestic demand. More than 250,000 b/d will be processed at the Port Harcourt, Warri, and Kaduna refineries when the last-named comes on stream in two years. 25X1

Capital inflows are not likely to bolster Nigeria's payments position. Direct investment has fallen off in recent years largely because of government moves to increase the participation of Nigerians in the economy. Current restrictions on profit repatriation, the recent abrogation of bilateral tax agreements, and higher profit taxes will undoubtedly induce many foreign investors to scale back or postpone capital programs. In addition, the uncertainty of Nigeria's political future—as the military steps down and a civilian government supposedly reassumes power next fall—scares off foreign capital. Nigeria could experience increasing difficulty in international financial markets. Despite its low debt ratio, Lagos recently failed to attract sufficient international support for a second $1 billion Eurodollar loan and had to settle for $750 million. [redacted] 25X1

The Longer Term

Beyond the mid-1980s, Nigeria's ability to maintain oil revenues depends on developing new oilfields at water depths exceeding 100 meters. None of the current producing companies is willing to undertake the costly investment required without a hefty boost in profits. Lagos will have to offer more favorable financial arrangements than those presently available if new offshore production is to offset the projected decline in output from existing fields. It will also have to provide a stable climate and assurances that policies will be pursued over the longer term. [redacted] 25X1

Liquefied natural gas exports could bolster export revenues if major problems such as pricing, financing, and customers are resolved in the near future. Plans call for building a $8 billion LNG facility and associated infrastructure with a capacity of 2 billion cubic feet per day. Construction has been delayed because of hesitancy on the part of Shell/BP, Phillips, Agip, and Elf to put up their share of the financing without government guarantees to recover their costs. In addition, Nigeria is relying on the United States to take 60 to 80 percent of the LNG exports. The US administration's energy program, however, includes a proposed ceiling on LNG imports holding US purchases considerably below the volume envisioned by Lagos. [redacted] 25X1

Over the longer term, Nigeria's greatest economic challenge is revitalizing agriculture, the livelihood of 75 percent of its population. Before the 1967-70 civil war and the onset of commercial oil production, Lagos was practically self-sufficient in food production and a leading world exporter of peanuts, cocoa, palm oil, and rubber. Now net food imports add about $1 billion to a year to the trade deficit. The investment required to return Nigeria to self-sufficiency, however, is likely to remain substantially beyond what future governments will be able to commit. [redacted] 25X1
[redacted]

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SOUTH KOREA: POLICY SHIFT WILL BOOST IMPORTS [redacted] 25X1

The South Korean Government is mapping out new policy directions to deal with a changing set of economic problems. Viewing the economy as in a transitional period, the Pak government is shifting its medium-term economic game plan in favor of increased imports, reduced farm subsidies, and greater emphasis on manpower development. [redacted] 25X1

In an effort to control inflation, strengthen the industrial structure, and respond to international pressure (especially from the United States), import liberalization will be stepped up. Foreign purchases are targeted to grow from $10 billion last year to $25 billion (current US dollars) in 1981, making South Korea one of the world's fastest

South Korea: Import Projections

	Original Five-Year Plan		Revised Plan (Draft)	
	Billion US $, f.o.b.	Percent Change	Billion US $, f.o.b.	Percent Change
1977	10.1	21	10.5 [1]	25 [1]
1978	12.0	19	13.9	32
1979	14.0	17	17.8	28
1980	16.3	16	21.1	19
1981	18.9	16	25.4	20

[1] Actual.

[redacted] 25X1

growing import markets. Seoul will continue its attempts to buy more from the United States and Western Europe, but Japan will probably maintain its 35 to 40 percent share in South Korean import markets. Capital equipment and industrial raw materials will remain the leading imports. [redacted] 25X1

Changing Economic Problems

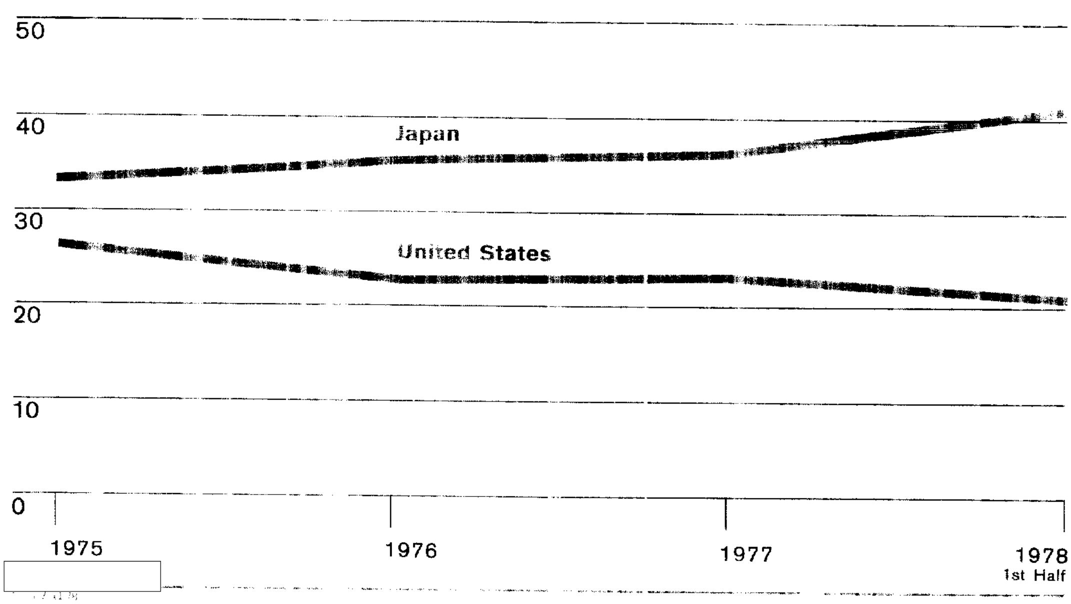
The economic problems facing South Korean policymakers have changed markedly over the past several years. Previously, massive balance of payments deficits and foreign exchange shortages had been the overriding policy concern. In 1974 and 1975 the current account deficit had soared to $2 billion in each year, equivalent to 50 percent of exports, and foreign exchange reserves had fallen to precariously low levels. The Pak government responded by tightening its restrictive import policy through a wide array of nontariff barriers to slow imports. [redacted] 25X1

The most effective of these barriers was the semiannual trade plan with its list of banned and restricted items; a commodity on the restricted list requires prior approval for import by the appropriate government ministry or private trade association. Seoul also employed an export-import link system, end user requirements, and import deposit requirements to restrict the purchase of foreign goods. [redacted] 25X1

Benefiting from large inflows of foreign exchange from overseas consturction work in the Middle East and rapid export gains, South Korea's balance of payments has improved dramatically over the past three years, far exceeding government expectations. At the same time, inflation has accelerated. Consumer prices are now

South Korea: Import Market Shares

Percent



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rising 15 percent per annum compared with 10 percent in 1977, according to the official index, which considerably understates the increase. Even though most South Koreans are benefiting from higher real wages, the step-up in inflation has generated public concern and has become the government's biggest headache. 25X1

The upward pressure on prices stems in large part from the government's failure to anticipate massive foreign exchange inflows in 1977 and from growing shortages of some products. Rising incomes have boosted consumer demand for durables beyond supply capacities. A construction boom has caused shortages of building materials and skilled labor. A spring drought reduced agricultural output. And, finally, import costs are on the rise because of the appreciation of the yen, Seoul having kept the won pegged to the dollar. 25X1

Revamped Economic Strategy

A draft plan for 1979-81 prepared by the Economic Planning Board (EPB)—now in the final stages of approval—foreshadows a change in trade policy and government initiatives to fight inflation and improve the international competitiveness of heavy and chemical industries. The most radical features of the plan call for much higher imports and reduced farm subsidies. With the overall balance of payments in good shape, Seoul appears willing to accept larger trade deficits in exchange for progress on inflation. The trade deficit, less than $500 million last year and projected at $1.4 billion in 1978, is now targeted to reach $2.8 billion in 1979. A large surplus in the services account and a continuing influx of long-term capital will more than offset the deficit. 25X1

On the fiscal front, Seoul plans to gradually reduce the perenially large deficit in its grain management fund—a price support mechanism to bolster farmer incomes—through smaller annual increases in purchasing prices. Agriculture policy will focus instead on boosting rural incomes through nonfarm sources of income. 25X1

The plan also calls for greater overall fiscal restraint to balance the budget and for a slight cut in GNP targets. Manpower development is another priority. With the Korean economic structure shifting from low-cost, labor-intensive industries to high-skill and technology-intensive industries, college and vocational enrollments will increase by 50,000 in 1979, 75,000 in 1980, and 95,000 in 1981. 25X1

Implications for Korean Imports

The most notable feature of the revised plan is the rapid growth envisioned for foreign purchases. According to EPB projections, imports will reach $25.4 billion (f.o.b. current prices) in 1981, rather than the $18.9 billion called for in the government's original five-year plan (1977-81) formulated in 1976. Last year, South Korean imports amounted to $10.5 billion. A further liberalization of Seoul's nontariff barriers, lower tariff rates, and continued high growth will contribute to the increased inflow of foreign goods. 25X1

Consumer goods, including electric appliances, radios, and televisions, will be imported more freely to dampen inflation. The same holds true for food items; food prices have led the rise in prices. Beef imports, for example, will reach 67,000 tons this year compared with 8,000 tons in 1977. Machinery and industrial raw material imports will be encouraged to strengthen the competitiveness of Korean businesses, especially export-oriented firms. Many Korean manufactures have complained of poor quality and high cost of domestically produced components. 25X1

Korean liberalization steps also reflect Seoul's desire to respond to international pressure, especially from the United States. The Pak government wants to avoid trade problems with Washington at a time when relations are finally recovering from the diplomatic scandals of the past two years and when US decisions will be made on the pace of ground troop withdrawals. This year, Seoul set import as well as export targets for its trade with the United States to hold down its bilateral surplus. 25X1

Approved For Release 2008/09/23 : CIA-RDP80T00702A001000030002-5

Import Trends and Patterns

South Korean imports in fact have already been increasing at a rapid pace in the past three years, reflecting high economic growth and a gradual easing of trade barriers. After stagnating in 1974 and 1975 because of the balance of payments constraint and relatively slow export growth, import volume rose 23 percent in 1976 and 21 percent in 1977. Accelerated import liberalization and rapid economic growth should boost import volume another 25 percent this year. In recent months, foreign purchases have grown especially fast. Between July and October the value of imports was 50 percent higher than in the comparable 1977 period in dollar terms. The high level of import licenses foreshadows continuing brisk growth in coming months. 25X1

Capital equipment and industrial raw materials are the fastest growing imports. Led by machine tools, turbines, and handling and loading equipment, purchases of industrial machinery have increased from $850 million in 1975 to an anticipated $2.3 billion in 1978. Imports of raw materials and semifinished goods—such as cotton, logs, hides and skins, and electronics components—to be used in Korean export industries are increasing rapidly in line with strong export gains. The volume of petroleum imports is growing slightly faster than real GNP; petroleum purchases account for almost 20 percent of imports. Agricultural imports, on the other hand, have leveled off since 1975 largely because of bumper rice crops the past several years. Consumer goods imports, while up substantially this year, remain a small share of the total. 25X1

Market Shares

Despite Seoul's efforts to encourage purchases from the United States and West

South Korea: Major Commodity Imports

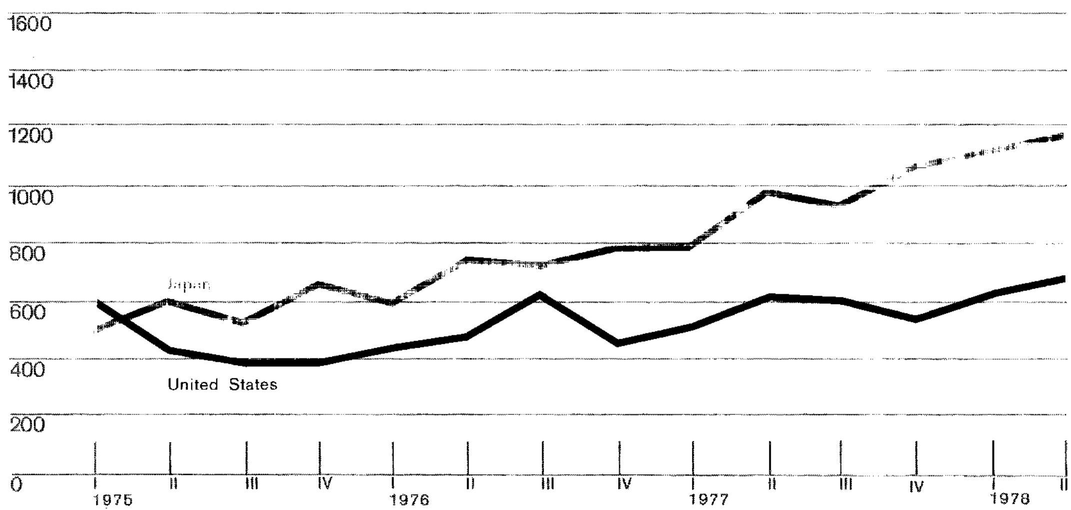
Million US $, c.i.f.

	1975	1976	1977
Total	**7,274.4**	**8,773.6**	**10,810.5**
Petroleum	1,339.3	1,646.5	2,052.3
Industrial machinery	849.5	1,057.1	1,505.3
Metal products	657.0	798.2	1,142.7
Textiles	593.3	739.3	842.3
Electrical machinery	512.4	741.5	826.4
Chemicals	390.4	524.7	586.9
Wood	270.3	419.8	537.2
Transport equipment	547.4	542.5	521.9
Grains	689.1	458.1	486.2
Hides and skins	124.3	219.5	268.6
Other	1,301.4	1,626.4	2,040.7

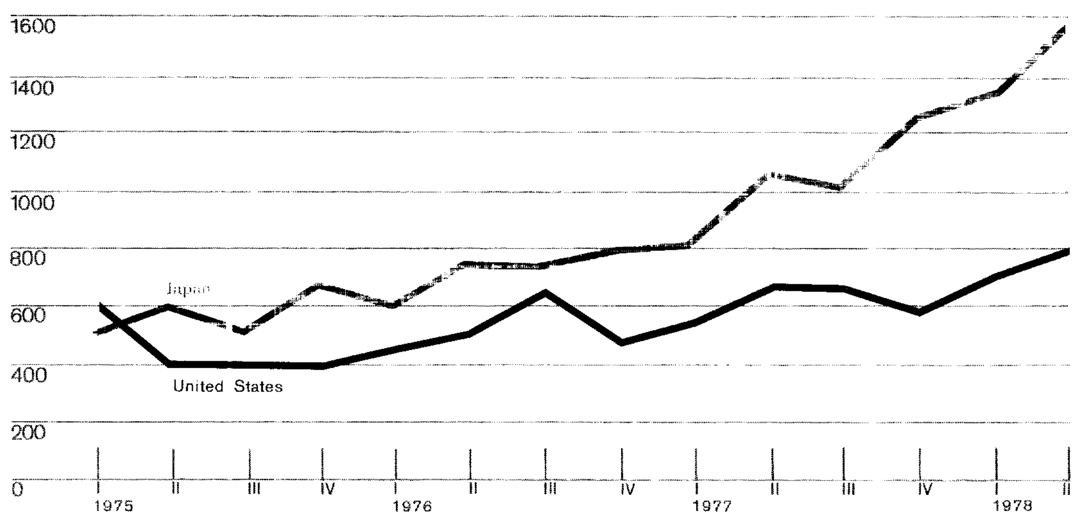
25X1

United States and Japan: Exports to South Korea

Million 1975 US $



Million US $



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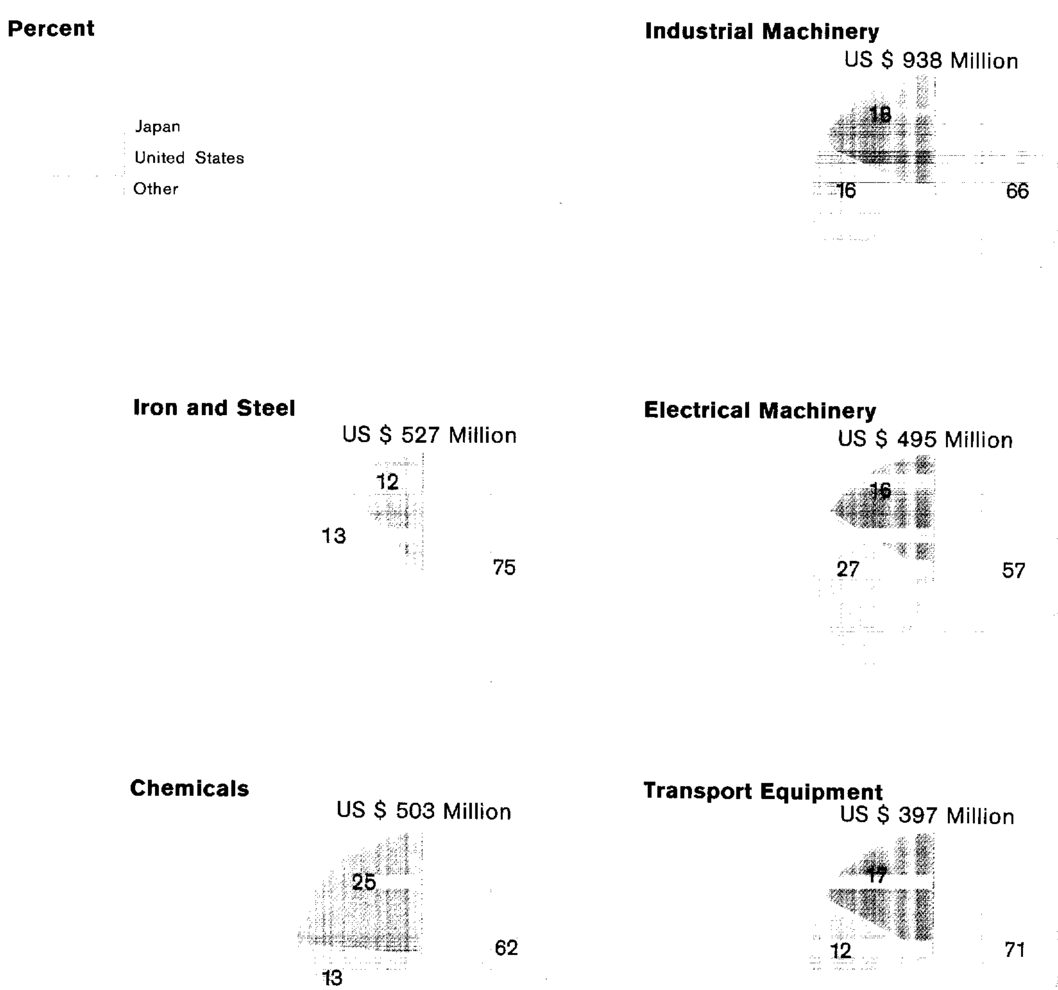
South Korea: Selected Imports by Source, January–June 1978



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25X1

European suppliers. [redacted] 25X6

[redacted] 25X6

Japanese have a substantial equity involvement in some of South Korea's largest importing firms. Korean preference for Japanese equipment also derives from Tokyo's excellent record for after-sales servicing. Frequently, Japanese engineers will fly to Seoul on short notice to deal with repair problems. [redacted] 25X1

Prospects

Opposition to EPB plans to increase imports and reduce farm subsidies is strong within the government, especially in the Ministry of Commerce and Industry and Ministry of Agriculture and Fisheries. The trend toward a freer flow of imports, however, is unlikely to be reversed as long as the balance of payments remains strong. Barring a slowdown in growth and exports, Seoul's imports will probably be close to the mark. [redacted] 25X1

The largest import gains will continue to come in capital equipment and industrial raw materials, as South Korea pushes full-throttle industrialization. The competitive position of the United States will be improved by Seoul's increased emphasis on supply diversification and by the yen appreciation of the past two years. Japan nonetheless remains well positioned to capture its share of the increase. [redacted] 25X1

[redacted] 25X1

* * * * *

OPEC: SOARING EXTERNAL DEBT [redacted] 25X1

We estimate that total external debt of OPEC members will climb to roughly $86 billion by yearend 1978,* the equivalent in value at half of total foreign assets. Record-level borrowing—over $13 billion in international capital markets** in 1978—is about 55 percent more than the amount borrowed in 1977. The dominant factors behind the upturn in OPEC borrowing activity has been (a) the continuing liquidity in international capital markets and (b) the plunge in the OPEC current account surplus from $30 billion in 1977 to an estimated $6 billion this year. While credit ratings for most OPEC nations remain intact, mounting debt figures are clouding the prospects for adequate financing of internal development projects in a few countries, notably Nigeria, Algeria, and Venezuela. Nigeria has already moved to cut back on non-essential imports. [redacted] 25X1

OPEC Countries: Current Account Balance, External Debt, and International Borrowings

Million US $

	Balance		Debt	Borrowings		
					1978	
	1977	1978 [1]	1978 [1]	1977	1st Half	2nd Half
Total	29,795	5,610	85,971	8,471	7,053	5,966
Algeria	−3,350	−3,150	19,831	681	945	1,532
Ecuador	−730	−690	2,540	450	62	410
Gabon	15	−140	1,600	56	228	80
Indonesia	1,420	215	18,000	455	807	423
Iran	4,595	−15	12,400	2,491	772	712
Iraq	3,450	2,255	1,400	0	0	180
Kuwait	4,650	5,135	2,500	108	262	214
Libya	3,210	1,665	1,000	0	0	0
Nigeria	−890	−3,795	5,200	0	1,000	1,145
Qatar	695	610	1,000	375	150	200
Saudi Arabia	14,355	5,600	3,500	137	98	11
United Arab Emirates	3,220	1,660	4,000	1,499	541	216
Venezuela	−850	−3,735	13,000	2,219	2,188	843

[1] Estimated.

[redacted] 25X1

* The debt figures, gathered from financial data and based on known borrowing patterns, represent liabilities (disbursed and undisbursed) guaranteed by the debtor country plus non-guaranteed debt—primarily owed to private creditors. [redacted] 25X1

** The term "international capital markets" covers medium and long-term bank loans and bonds received from private financial institutions. [redacted] 25X1

Major Debtors

Five of the more populous states—Algeria, Indonesia, Iran, Nigeria, and Venezuela—will account for nearly 80 percent of total OPEC debt at yearend 1978. The remaining four countries in the "high absorber" group held 8 percent of the estimated $86 billion debt.* Over the last four years, high absorber states incurred debt at an increasing rate; at yearend 1977, the debt was 30 percent above the previous year compared to a 14-percent increase in 1974. Based on partial data, amortization and interest payments for the high absorber OPEC countries were nearly $5 billion in 1977; partly reflecting the rise in interest obligation, their current account surplus declined to $7 billion. We expect their current account to go into the red by $7 billion in 1978, while combined debt service costs continue to increase. The estimated debt increase of 19 percent during 1978 may be understated since data for supplier credits, agricultural credits, and private nonguaranteed loans are sketchy. 25X1

OPEC Countries: External Debt [1]

Billion US $

	1974		1975		1976		1977	
	Disbursed	Total	Disbursed	Total	Disbursed	Total	Disbursed	Total
Total	19.7	29.2	23.6	35.9	31.0	47.1	46.2	65.8
Change over previous year	14.5%	15.7%	19.9%	22.8%	31.9%	31.4%	48.9%	39.6%
Total (High Absorbers)	18.4	27.6	22.0	33.9	28.3	43.0	40.9	57.5
Change over previous year	12.5%	14.1%	20.0%	22.8%	28.5%	26.8%	44.5%	27.8%
Algeria	3.3	6.0	4.5	9.0	5.9	11.6	7.6	15.1
Ecuador	0.3	0.6	0.4	0.8	0.6	1.0	1.2	1.7
Gabon	0.4	0.5	0.6	0.7	1.0	1.1	1.4	1.5
Indonesia	6.3	9.2	8.1	11.8	9.9	14.5	11.3	15.8
Iran	4.7	6.9	5.0	7.1	5.2	7.5	7.4	10.4
Iraq	0.4	0.7	0.6	1.1	0.6	1.2	0.7	1.3
Libya	0.4	0.5	0.3	0.3	0.5	0.8	0.6	0.9
Nigeria	1.0	1.4	1.3	1.7	1.4	1.9	1.6	2.2
Venezuela	1.5	1.9	1.2	1.4	3.1	3.4	9.1	9.6
Total (Low Absorbers)	1.3	1.6	1.5	1.9	2.7	4.1	6.3	8.3
Change over previous year	37.3%	58.5%	22.0%	20.2%	75.0%	111.0%	132.0%	101.7%
Kuwait	0.2	0.2	0.3	0.3	0.2	0.4	1.5	1.9
Qatar	0.1	0.1	0.2	0.2	0.3	0.4	0.3	0.6
Saudi Arabia	0.5	0.5	0.4	0.5	1.1	1.8	1.9	2.8
United Arab Emirate	0.5	0.8	0.7	1.0	1.0	1.5	2.6	3.0

[1] The debt figures, derived from financial data and known borrowing patterns, represent liabilities (disbursed and undisbursed) guaranteed by the debtor country plus nonguaranteed debt—primarily owed to private creditors.

25X1

* High absorber countries—Algeria, Ecuador, Gabon, Indonesia, Iran, Iraq, Libya, Nigeria, Venezuela—generally have export earnings that do not outstrip the ability of their economies to absorb imports. 25X1

Foreign debt also has soared for the low absorber group—Kuwait, Qatar, Saudi Arabia, and the United Arab Emirates. Debt (including undisbursed commitments) has more than doubled in each of the last two years. Even though the $8.3 billion debt figure in 1977 for the low abosrbers is small compared with their combined $23 billion current account surplus last year, it represents a more than fourfold increase in debt over the last three years. We estimate that low absorber debt will climb to about $11 billion by yearend 1978, a 33-percent increase over last year. 25X1

OPEC Countries: Foreign Trade and Current Account Balances

Billion US $

	1974	1975	1976	1977 [1]	1978 [2]
			High Absorbers [3]		
Exports (f.o.b.)	69.5	64.3	75.9	84.6	81.4
Imports (f.o.b.)	28.7	45.4	49.9	59.3	67.2
Trade Balance	40.8	18.9	26.0	25.4	14.2
Current Account Balance	32.9	6.8	10.3	6.9	−7.4
			Low Absorbers [4]		
Exports (f.o.b.)	48.7	43.9	55.3	61.4	58.8
Imports (f.o.b.)	7.1	11.6	18.3	24.8	31.4
Trade Balance	41.6	32.4	37.0	36.6	27.4
Current Account Balance	38.1	25.0	25.7	22.9	13.0

[1] Estimated.
[2] Projected.
[3] Includes Algeria, Ecuador, Gabon, Indonesia, Iran, Iraq, Libya, Nigeria, and Venezuela.
[4] Includes Kuwait, Qatar, Saudi Arabia, and the United Arab Emirates.

25X1

High Absorber Borrowing in 1978

Borrowing by all OPEC states on international capital markets is estimated at more than $13 billion this year, in part reflecting the projected fall in their combined current account surplus by roughly 80 percent, to $6 billion. The $24 billion decline in the total current account surplus from the 1977 level is accounted for by: (a) a $6 billion drop in export earnings, (b) a $15 billion rise in import expenditures, and (c) a substantial increase in outlays for net services and private transfers. 25X1

Nigeria joined Algeria, Indonesia, Iran, and Venezuela as the major borrowers in 1978; this group accounted for more than $10 billion in loans, or 80 percent of total OPEC borrowing. Most of the high absorber OPEC members have faced at least some difficulties in recent loan negotiations. 25X1

Algeria is expected to cut import expenditures by an estimated $100 million in 1978 due largely to declining oil revenues. Nearly all Algeria's $2.5 billion in private external borrowing this year has been for specific industrial projects. Sonatrach, the state oil and gas monopoly, borrowed roughly $1 billion. Other state-owned enterprises—Sonitex (textiles), Societe Nationale de Siderurgie (steel), and Sonalec (electricity)—have received foreign loans. A recent Eurodollar loan for $40 million for the state-owned Banque Exterieure D'Algerie carried a favorable spread of ⅝ percent over LIBOR, a sign that international bankers for the moment still retain confidence in Algeria's economy. 25X1

Bankers have returned ***Indonesia*** to a favored borrower status—a turnaround from the days of the 1975 Pertamina crisis. A $300 million loan on extremely favorable terms from a Canadian-US banking consortium suggests continued confidence by international lenders in the Indonesian economy. Although both oil earnings and domestic economic growth are expected to slow somewhat over the next few years, Indonesia's debt repayment burden should be easily manageable. 25X1

Domestic political and religious unrest in ***Iran*** is undermining its credit rating. The political turmoil probably contributed to the cancellation by an international bank consortium of a proposed $80 million loan for the Agricultural Development Bank (ADB) this month. A group of international bankers recently informed the National Iranian Tanker company of their decision to postpone a $49.5 million refinancing loan agreement. Iranian borrowing is expected to total about $1.5 billion this year, considerably below the $2.5 billion raised on the international markets last year. 25X1

Nigeria negotiated a $1 billion Eurodollar loan in January, which was completely drawn down by May. Attempts to arrange a second $1 billion loan ran into difficulties last month when West German bankers withdrew from the deal. Lagos finally raised $750 million, which can be drawn on this month. Nigeria has been hard-hit by slack oil demand and probably will face a nearly $1.5 billion decline in oil revenues in 1978. Despite import controls imposed in April Nigerian import spending was up 25 percent in first half 1978 over first half 1977. An estimated current account deficit of $3.8 billion for the year, rising debt service costs, and a continuing drawdown of Nigerian financial reserves will dampen creditors' enthusiasm towards new financing. 25X1

Venezuela has backed off from another jumbo loan after the cool reception to its $1.2 billion loan in first half 1978. According to Finance Minister Luongo, the government will look to foreign sources for small loan packages to refinance a series of payments coming due on loans floated in 1976 and to cover an expected $1.5 billion budget deficit in 1979. The primary causes of the estimated $3.7 billion current account deficit this year are rapidly rising import expenditures and slightly decreasing

oil revenues. Caracas still enjoys an above-average credit rating [redacted] 25X1
25X1 [redacted] and expects to reduce imports when new steel and aluminum projects come on line late next year. [redacted] 25X1

The smaller, high absorber OPEC member—***Ecuador, Gabon, Iraq,*** and ***Libya***—are expected to borrow roughly $1 billion on the international capital markets this year. Ecuador has joined the growing list of countries rescheduling their debt. In addition to refinancing existing debt, Ecuadorian Finance Minister Reyna signed a new loan for $80 million on behalf of the military. Iraq refinanced the undisbursed portion of a 1975 loan at more favorable terms. Ecuador and Gabon are considered
25X1 poor credit risks [redacted] based on the size of their debt relative to export earnings. Although currently experiencing cash flow problems, Libya has sizable foreign assets and is not expected to be an active participant in the foreign funds market. [redacted] 25X1

Low Absorber Borrowing

The financial status of the low absorber group—Kuwait, Qatar, Saudi Arabia, and the UAE—is comfortable, based on total official foreign assets of over $105 billion at midyear 1978. Sizable asset holdings, a current account surplus estimated at $13 billion this year, and 1977 yearend external disbursed debt of $6.3 billion endow the low absorber group with an excellent credit rating. The less populous Gulf states are important sources of funds for international borrowers except for Dubai and the Emirate of Sharjah in the UAE. [redacted] 25X1

Massive cost overruns in the Dubai dry dock, the Jebel Ali berth port, and the aluminum smelter at Jebel raise serious doubts about Sheik Rashid's ability to meet debt obligations. In 1978, debt servicing will total about $300 million on foreign loans and export credits. Dubai will probably operate in deficit for the next three years and may be forced to draw down official reserves and lengthen the timetable for expensive industrial projects. Sharjah is trying to line up a $100 million loan even though Abu Dhabi had to step in earlier this year and guarantee a $200 million loan that was running into difficulties. [redacted] 25X1

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INTERNATIONAL ARRANGEMENT ON EXPORT CREDITS: UNRESOLVED ISSUES [redacted] 25X1

Substantial policy differences exist on the future course of the present International Arrangement on Export Credits—the so-called gentlemen's agreement under which OECD countries attempt to slow competition in export credits. [redacted] 25X1

Although the agreement is not up for renewal, the United States is seeking a substantial revision of the Arrangement, last updated in February 1978. The Europeans and the Japanese see no need for major changes at present. The issues, which were discussed at a late October technical review of the Arrangement, are scheduled for further examination in Brussels (11-12 December) and Paris (10-12 January). No substantial changes in the Arrangement are likely in the short term. 25X1

Characteristics of the Present Arrangement

Twenty OECD countries subscribe to the existing International Export Credit Arrangement, which was designed to reduce the scramble among major exporters for market share through government financed export credit inducements. The Arrangement is a consensus on guidelines, rather than a legal agreement. The guidelines are not binding and can be breached, provided members are notified in advance. 25X1

Basic Features of the Present International Export Credit Agreement

	High Income Countries [1]	Middle Income Countries [2]	Low Income Countries [3]
		Percent	
Minimum interest rates			
Credits of 2-5 years	7¾	7¼	7¼
Credits of over 5 years	8	7¾	7½
Minimum cash downpayment	15	15	15
		Years	
Maximum credit period	8½	8½	10

[1] GNP per capita more than $3,000.
[2] GNP per capita of $1,000-$3,000.
[3] GNP per capita less than $1,000.

25X1

The Arrangement calls for minimum interest rates of 7.25 percent to 8 percent, net of banking commissions and insurance premiums, on official export credits of from two to 10 year's duration. Private export credits are not covered. The credit terms vary with the income level of the borrowing country, being easiest for low income countries. A minimum downpayment of 15 percent of the value of the goods sold is required in all cases. Excluded from the Arrangement are:

- Agricultural commodities.
- Ships, ground satellite stations, and other trade sectors covered by separate agreements.

- Aircraft and nuclear power plants, which are already covered by existing standstill arrangements among OECD members.

- Export credits mixed with development assistance ("mixed credits"), if the grant element in the credit package exceeds 25 percent. The entire package is regarded as economic aid in these circumstances. All other mixed credits require notification to competing countries.

- Military exports, if the member unilaterally declares his intentions. 25X1

Evolution of the Arrangement

The International Arrangement on Export Credits has taken several forms since the initial discussions between the United States, United Kingdom, West Germany, Japan, and France during the September 1973 IMF Annual Meeting in Nairobi:

- An initial agreement among the five countries providing for a minimum 7.5 percent interest rate on export credits of over 5 years (September 1974). Italy later joined in this agreement, which was also endorsed by Canada.

- A second agreement between these seven countries that provided the interest rate structure and other credit terms now in force (July 1976). This agreement was later accepted by the EC on behalf of all its members (March 1977) and adopted by several other industrial countries, including Australia, Norway, Sweden, and Switzerland.

- The present agreement, which maintained the credit terms of the 1976 consensus and added more procedural guidelines for the operation of the scheme (February 1978). All 20 industrial countries that eventually recognized the 1976 agreement subscribe to this latest version. 25X1

Current Issues

US initiatives to revise the February 1978 consensus arose from concern over growing official financing devices, created to avoid existing controls. The US proposals include:

- Higher minimum interest rates.

- Coverage of sectors presently outside the Agreement, specifically, large commercial turbojet aircraft, liquid natural gas (LNG) tankers, agricultural commodities, and nuclear power plants.

- Limitations on the use of mixed credits.

- More detailed reporting on government-supported insurance against exchange rate risks and export costs increases.

- A widening of the consensus to include "third countries" like Brazil and South Korea.

- Closer observance of the terms of the Agreement by all members. 25X1

Among the recent export credit practices that have caused US concern was a large April 1978 British sale of Rolls Royce engines to Pan Am for use in Lockheed L-1011 aircraft that involved no downpayment and a 15-year repayment period, although the 1975 OECD Aircraft Standstill specifies a 10-percent minimum downpayment with a 10-year maximum repayment period for such sales. Also, an April 1978 European A-300 Airbus 15-year leasing contract with Eastern Airlines exceeded the Standstill's 12-year maximum. 25X1

Country Positions

Canada and the ***Scandinavian*** countries generally support changes in the Agreement along the lines proposed by the United States. The ***EC*** and ***Japan*** oppose any substantial revisions at this time but are prepared to go along with cosmetic changes. The Japanese consider revisions so soon after the February 1978 consensus premature. 25X1

Japan and the EC, particularly ***West Germany, Spain***, and ***France***, oppose interest rate increases. All these countries feel that more experience with the present Arrangement is needed before a change in the interest rate schedule can be considered. The West Germans, the Japanese, and the Austrians do not believe that equal interest rate charges by lenders are feasible in a world of different economic conditions and changing currency values. The Japanese feel that higher interest rates may draw protests from LDCs and other borrowers. 25X1

The EC, particularly the ***United Kingdom***, is not prepared to support any arrangement on large commercial turbo-jet aircraft that would prevent it from competing in the US market. Also, the EC is against increased minimum cash payments on aircraft sales or leases, as proposed by the United States. 25X1

The EC opposes the 15-year repayment term on LNG carriers indicated by a US Export-Import Bank credit deal with Algeria in May 1978. It appears willing to accept a 10-year maximum repayment period instead. The EC is not strongly opposed to US proposals to bring agricultural commodities and nuclear power plants into the Agreement. 25X1

Nearly all members of the consensus are prepared to limit the use of mixed credits with a grant element of less than 25 percent. France, however, with a mixed credit program of about $625 million this year that would qualify for these limitations, opposes such a limit. Both the United Kingdom and France wish to avoid detailed reporting on insurance programs that protect exporters against foreign exchange risks and cost inflation. 25X1

The consensus members generally approve South Korean and Brazilian accession to the Agreement. The South Koreans are interested in participating. The Brazilians, however, have no interest in joining a program that might restrict their export promotion schemes. 25X1

Notes

EC Agrees to EMS; Membership Still Uncertain 25X1

While European Community leaders unanimously approved the basic design of the European Monetary System at this week's Brussels Summit, only France has agreed to align its currency with the present joint float (snake) currencies in the new arrangement. Disagreement over the level of resource transfers that should accompany the EMS was the major stumbling block to early British, Italian, and Irish membership. Italy and Ireland plan to make final decisions on EMS in about a week, after their respective cabinets and parliaments review the system. The United Kingdom has confirmed that it will not join EMS at the start, which is expected to be 1 January 1979. A number of technical difficulties remained to be worked out at the next EC finance ministers council on 18 December. 25X1

The basic ingredients of the new monetary arrangement include:

- A parity-grid intervention system with 2.25 percent bands around central rates for current snake members and bands of 6 percent allowed for non-snake countries.

- An ECU-denominated basket sytem imposed on the grid to act as an indicator of divergence, thus triggering "appropriate action"—perhaps mere consultation—by a country with a diverging currency.

- A $33 billion credit facility to finance intervention and balance of payments support.

- Use of the ECU as a unit of account for settlements between EMS central banks. [redacted] 25X1

The United Kingdom, Italy, and Ireland have consistently demanded increasd resource transfers through the EC budget to cushion entry into an EMS that could have deflationary consequences for their economies. While satisfaction of British demands seemed unlikely going into the Brussels Summit, Bonn and Paris apparently expected to accommodate the Italians and Irish. However, when Summit participants got down to specific amounts, France—backed by West Germany, Denmark, and the Benelux countries—was unwilling to permit an increase in the EC regional fund as large as that demanded by Italy and Ireland. [redacted] 25X1

Fear of Brazilian Devaluation Premature [redacted] 25X1

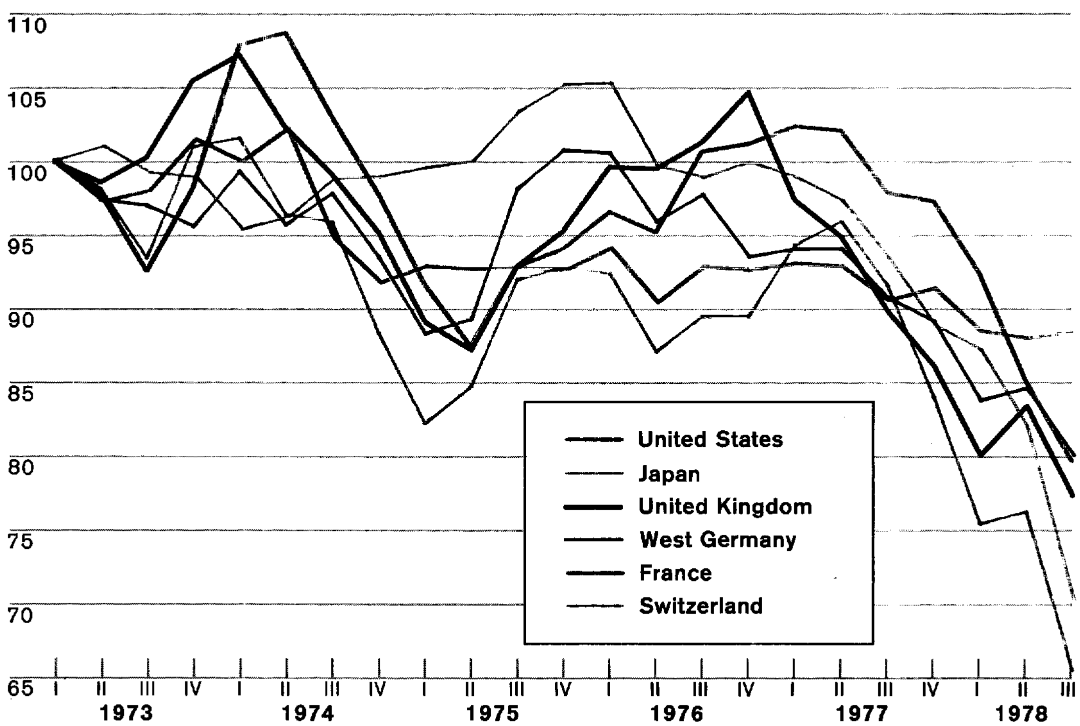
The possibility of a maxidevaluation of the cruzeiro—i.e., a devaluation of 10 percent or more—continues to concern certain US firms with subsidiaries in Brazil. To hedge against such a change, these firms are prepaying import bills, accelerating dividend remittances to the United States, and shifting liability portfolios from dollars to cruzeiros. While some firms are moving in this direction, other US multinationals discount the possibility of a sudden, large devaluation and are standing pat. [redacted] 25X1

Brasilia cannot justify a major devaluation at this time on economic grounds. During January-October 1978, the cruzeiro, pegged to the dollar, had fallen 47 percent against the deutsche mark, 62 percent against the franc, and 64 percent against the yen. The price-adjusted bilateral exchange rate in most cases shows a major improvement for the cruzeiro. Against the US dollar the price-adjusted exchange rate remained stable during the first three-quarters of 1978. [redacted] 25X1

Recent US moves to strengthen the the dollar have led Brasilia to accelerate the pace and frequency of minidevaluations—of 1 to 2 percent—in the fourth quarter of 1978. Effective 20 November, for example, the cruzeiro was devalued 2.1 percent against the dollar, only 26 days after the last depreciation. As a result of this 14th 1978 minidevaluation, the annual cruzeiro depreciation against the dollar amounted to 29.3 percent compared with 12 adjustments valued at 23.3 percent during the same period in 1977. Brasilia will probably continue to make minidevaluations rather than attempt the 30-percent one-time change rumored in the press. Finance Minister Simonsen opposes a large devaluation because it would be an apparent admission of past policy

Brazil: Price-Adjusted Bilateral Exchange Rates

Index: 1973 I=100



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errors, intensify inflation by boosting import prices, and greatly increase debt servicing costs.

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A maxidevaulation as part of a reform package sometime during the new Figueiredo government's first year in office cannot be ruled out, however. Some Brazilian economists are becoming increasingly vocal in recommending such a step to permit dismantling import restrictions and reducing export subsidies—both of which are under strong pressure from Brazil's major trading partners. Delfim Neto, favored by Figueiredo for a key economic policymaking position, privately concedes the possibility of a large devaluation when the new administration takes office in March. In reaching such a decision, the new government will have to carefully weigh these benefits against the cost of a large increase in this nation's heavy foreign service burden.

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National
Foreign
Assessment
Center

Economic Indicators Weekly Review

8 December 1978

ER EI 78-049
8 December 1978

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FOREWORD

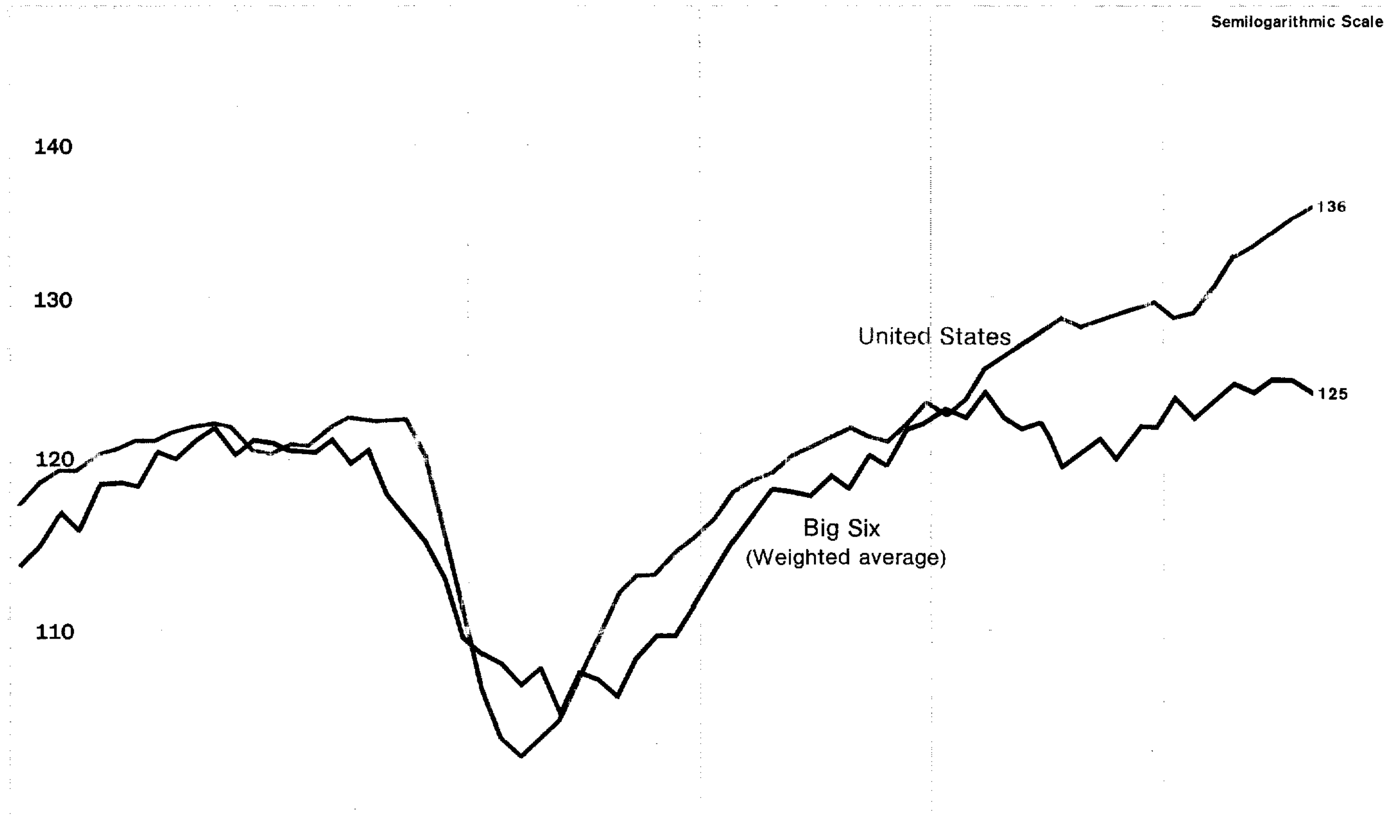
1. The **Economic Indicators Weekly Review** provides up-to-date information on changes in the domestic and external economic activities of the major non-Communist developed countries. To the extent possible, the **Economic Indicators Weekly Review** is updated from press ticker and Embassy reporting, so that the results are made available to the reader weeks—or sometimes months—before receipt of official statistical publications. US data are provided by US government agencies.

2. Source notes for the **Economic Indicators Weekly Review** are revised every few months. The most recent date of publication of source notes is 16 February 1978. Comments and queries regarding the **Economic Indicators Weekly Review** are welcomed.

BIG SIX FOREIGN COUNTRIES[1] COMPOSITE INDICATORS

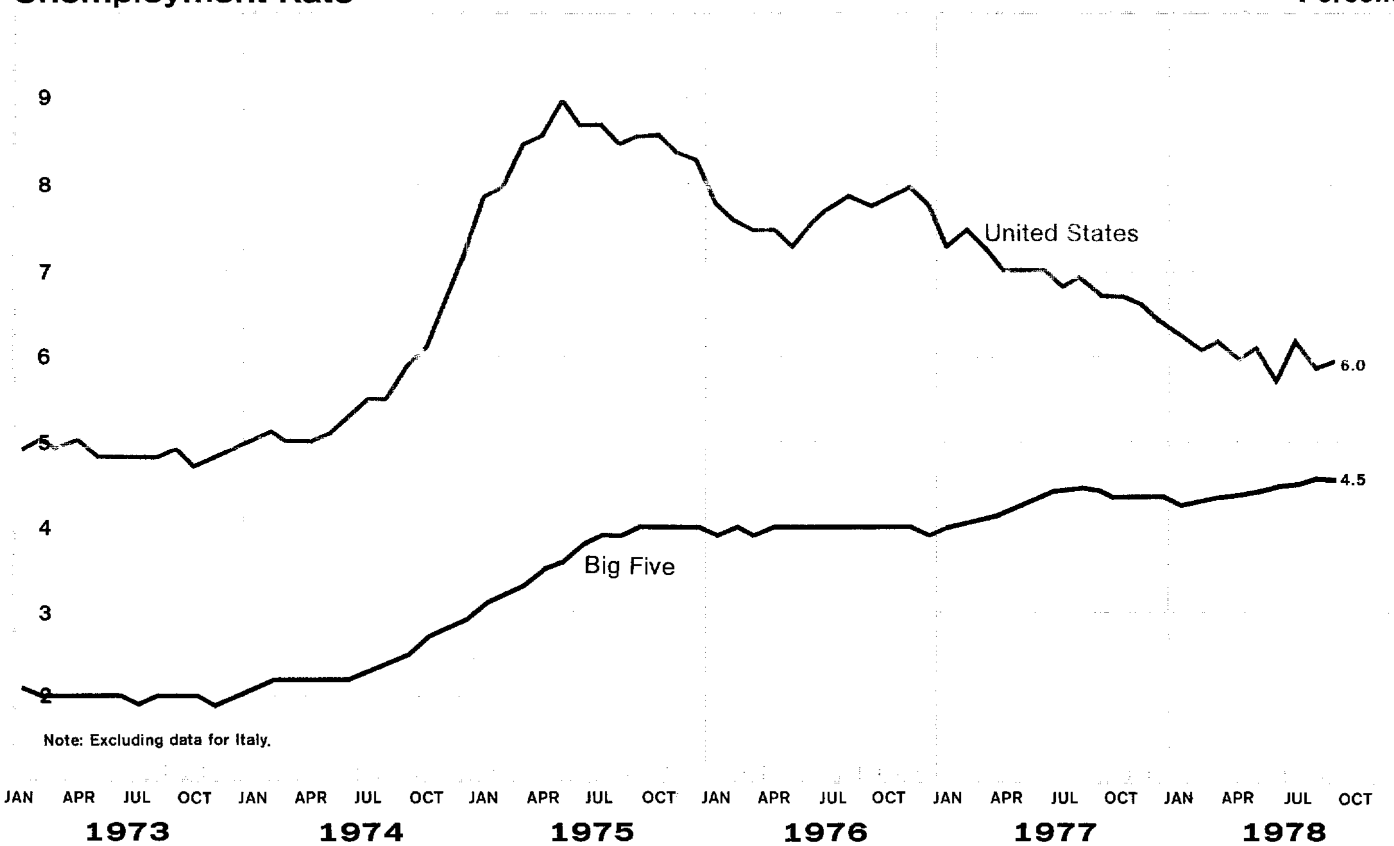
Industrial Production

INDEX: 1970=100, seasonally adjusted



Unemployment Rate

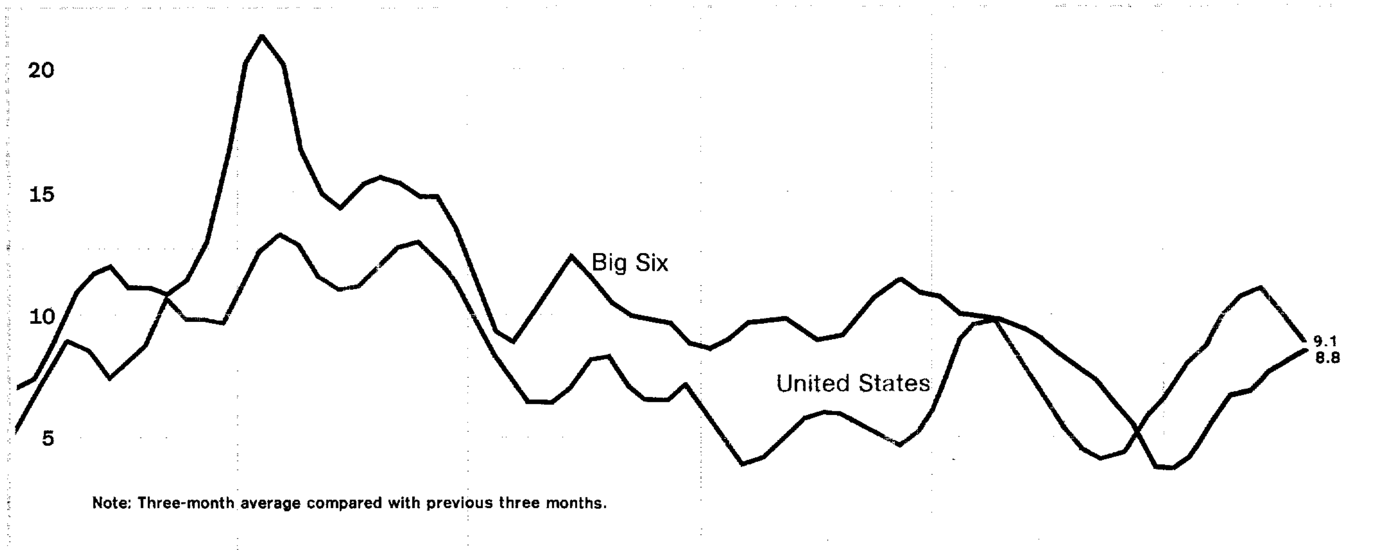
Percent



[1] Including Japan, West Germany, France, the United Kingdom, Italy, and Canada.

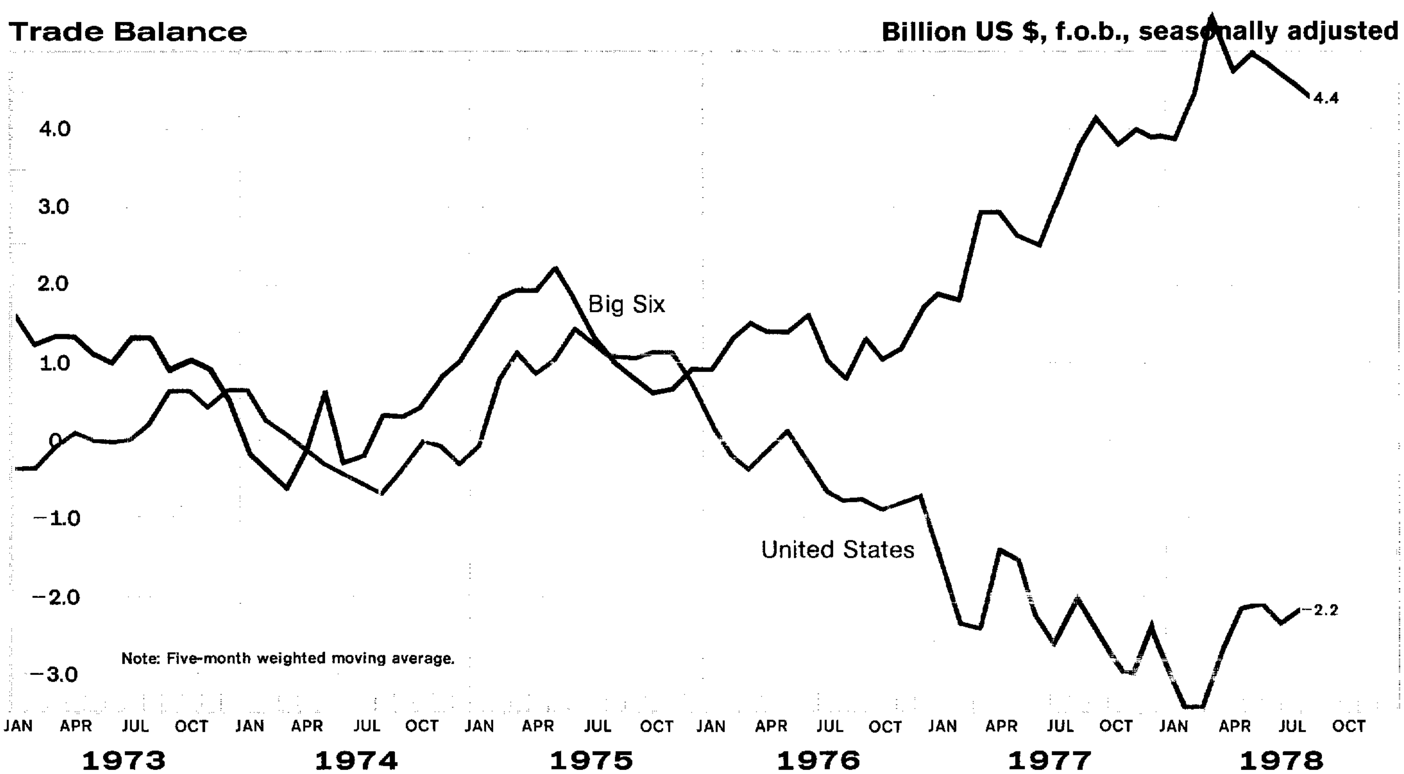
Consumer Price Inflation

Percent, seasonally adjusted, annual rate



Trade Balance

Billion US $, f.o.b., seasonally adjusted



	LATEST MONTH	Percent Change from Previous Month	AVERAGE ANNUAL GROWTH RATE SINCE 1970	1 Year Earlier	3 Months Earlier[2]
Industrial Production					
Big Six	AUG 78	−0.6	2.8	3.1	1.8
United States	AUG 78	0.6	3.9	6.4	9.7
Consumer Prices					
Big Six	SEP 78	0.3	9.2	6.3	8.8
United States	SEP 78	0.8	6.8	8.3	9.1

	LATEST MONTH		1 Year Earlier	3 Months Earlier
Unemployment Rate				
Big Five	SEP 78	4.5	4.4	4.5
United States	SEP 78	6.0	6.8	5.7

	LATEST MONTH	MILLION US $	CUMULATIVE (MILLION US $) 1978	1977	Change
Trade Balance					
Big Six	AUG 78	5,557	37,086	20,145	16,941
United States	AUG 78	−1,621	−20,976	−16,050	−4,926

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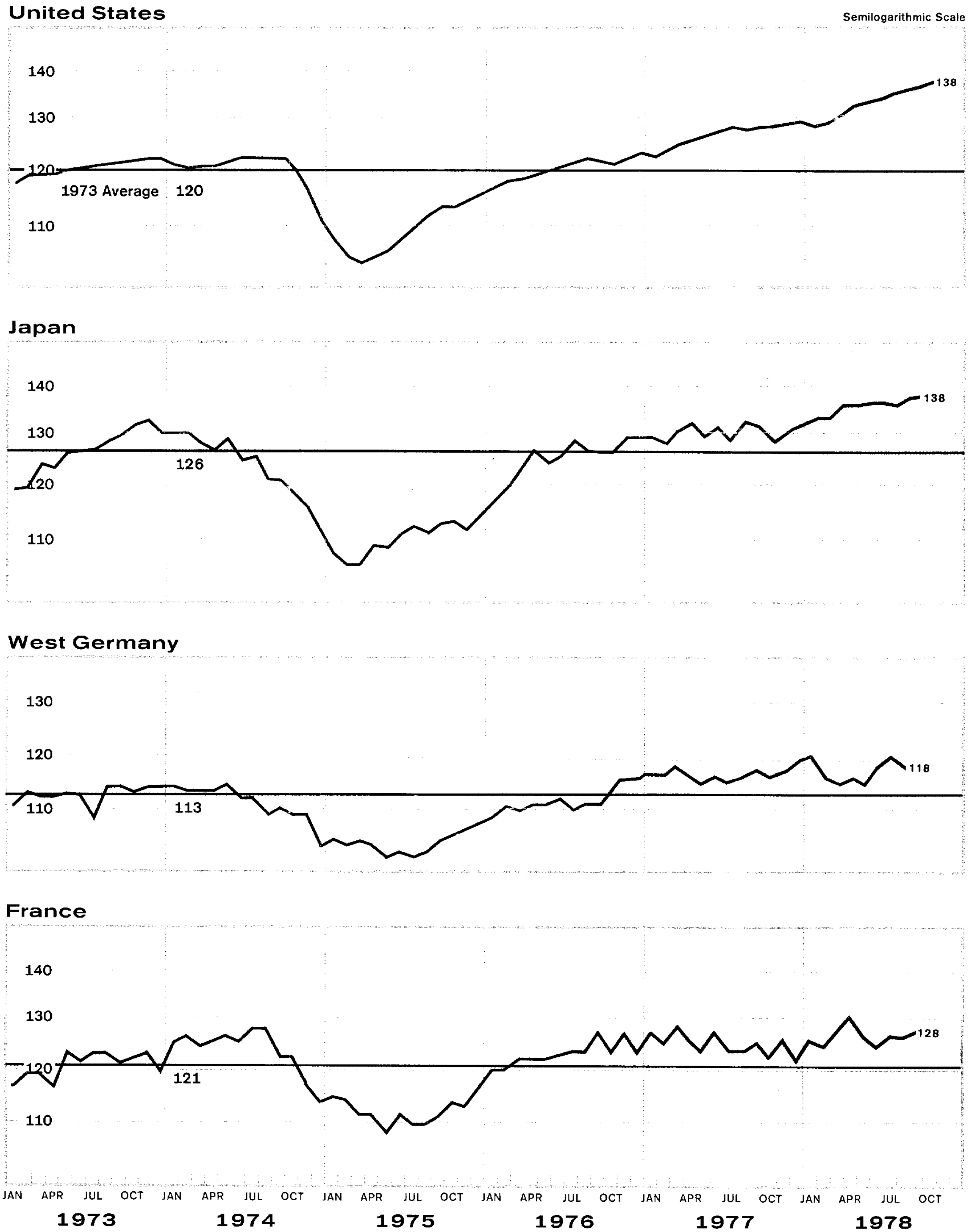
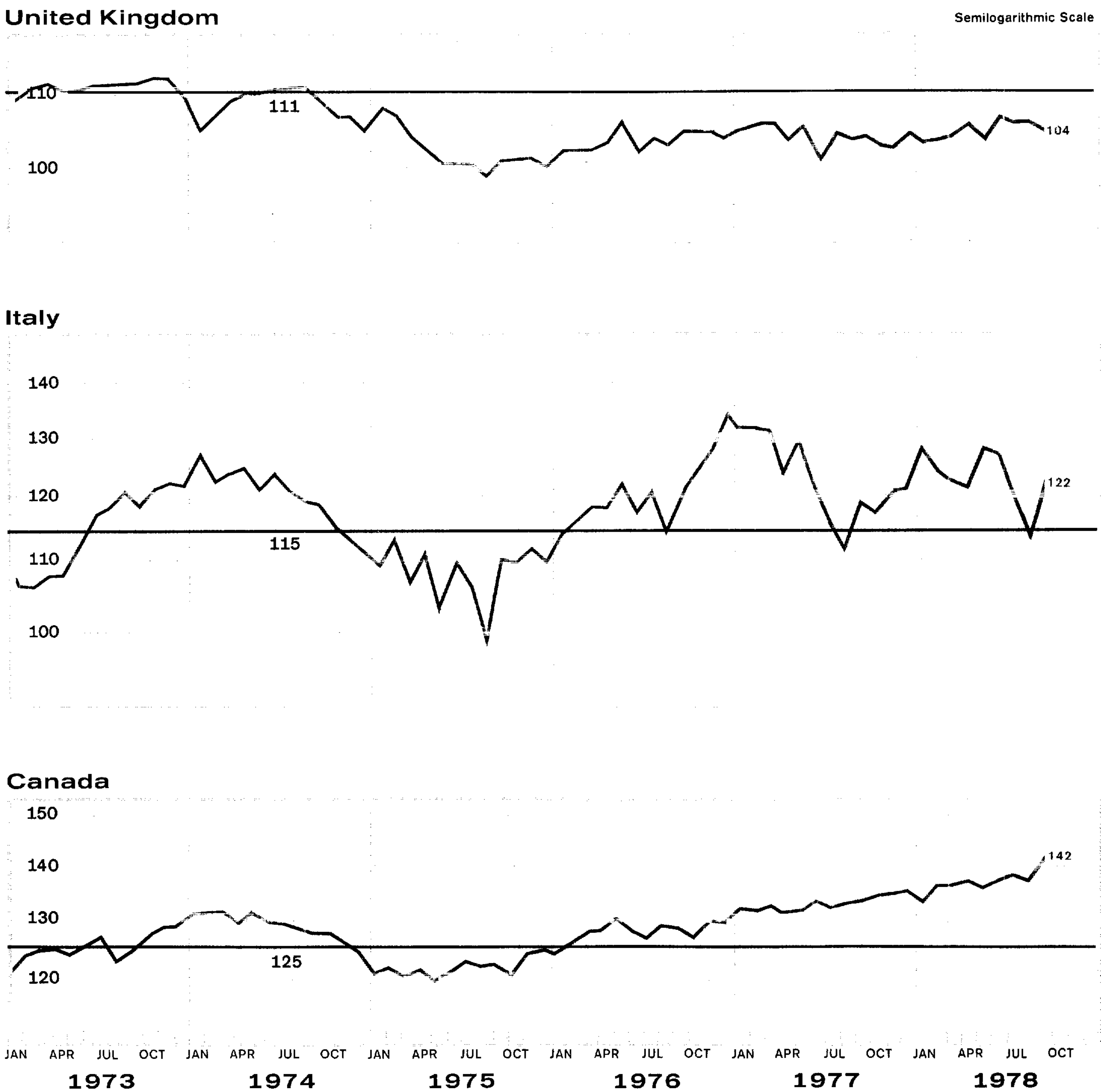
[2]Average for latest 3 months compared with average for previous 3 months, seasonally adjusted at annual rate.

INDUSTRIAL PRODUCTION INDEX: 1970=100, seasonally adjusted





	LATEST MONTH	Percent Change from Previous Month	AVERAGE ANNUAL GROWTH RATE SINCE 1970	1 Year Earlier	3 Months Earlier[1]
United States	OCT 78	0.5	3.9	6.8	7.8
Japan	SEP 78	0.6	4.0*	6.8	2.6
West Germany	AUG 78	-1.7	2.1	1.7	12.1
France	SEP 78	0.8	3.1	1.6	-1.0

	LATEST MONTH	Percent Change from Previous Month	AVERAGE ANNUAL GROWTH RATE SINCE 1970	1 Year Earlier	3 Months Earlier[1]
United Kingdom	SEP 78	-1.1	0.5	0.3	1.3
Italy	SEP 78	6.8	2.4	1.9	-21.4
Canada	SEP 78	2.8	4.3	6.3	6.3

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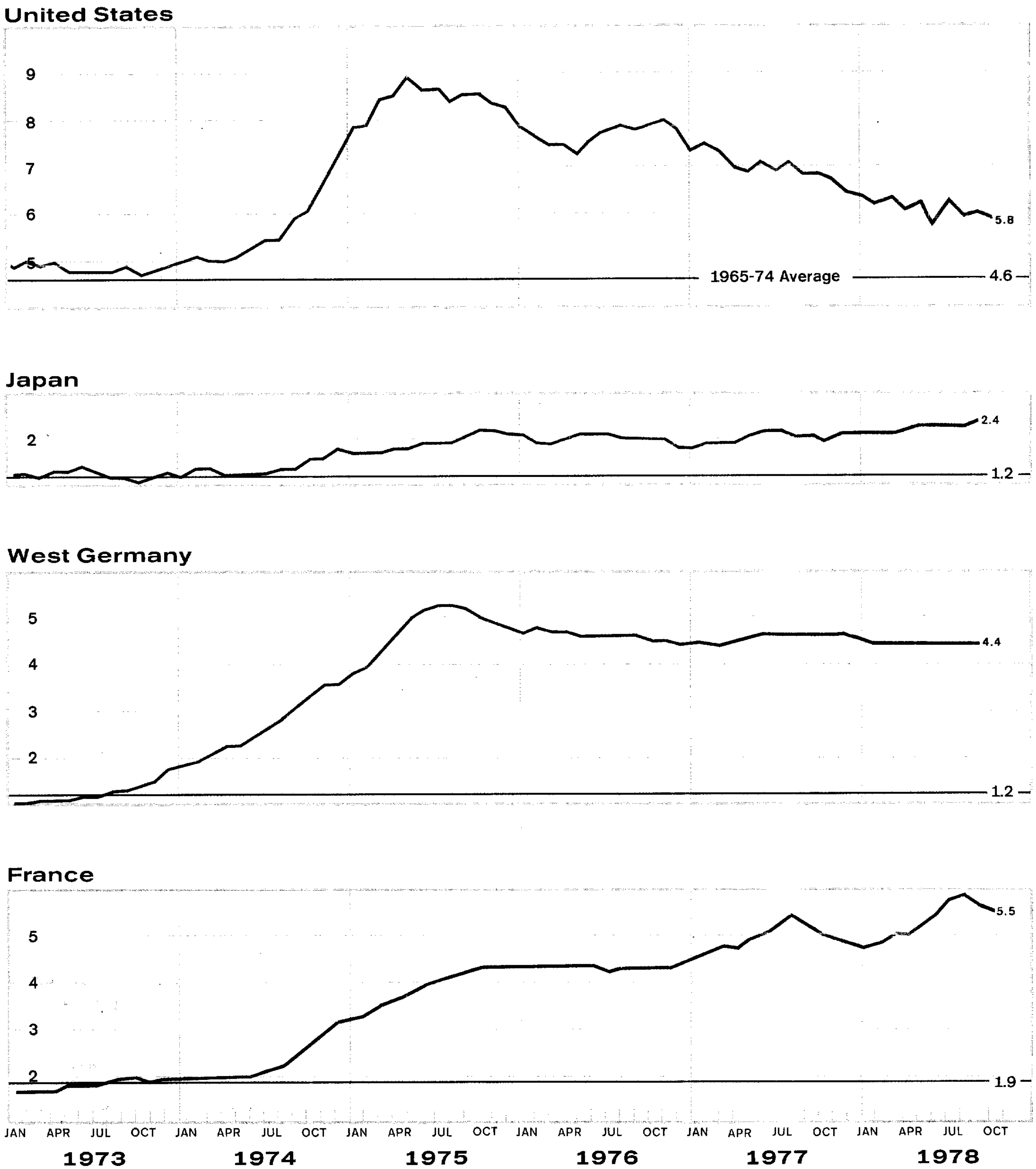
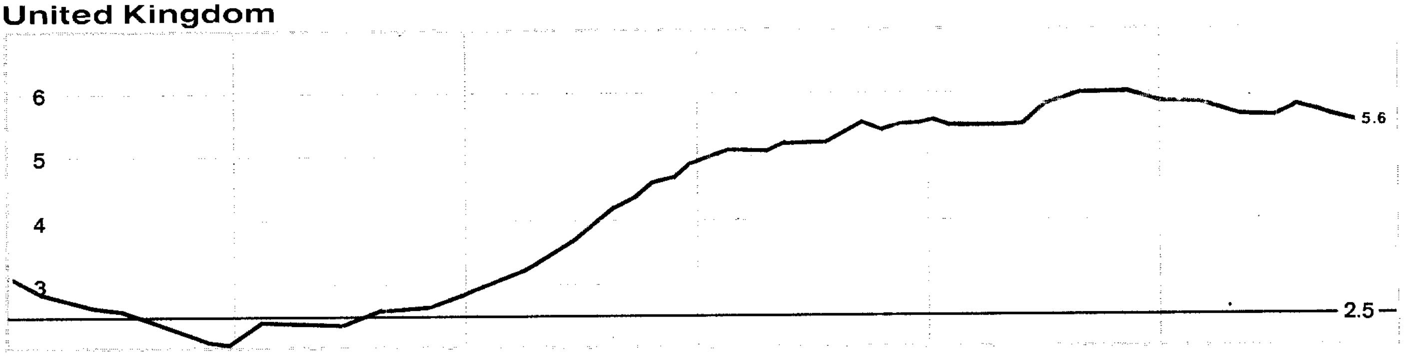
[1]Average for latest 3 months compared with average for previous 3 months.

UNEMPLOYMENT RATE

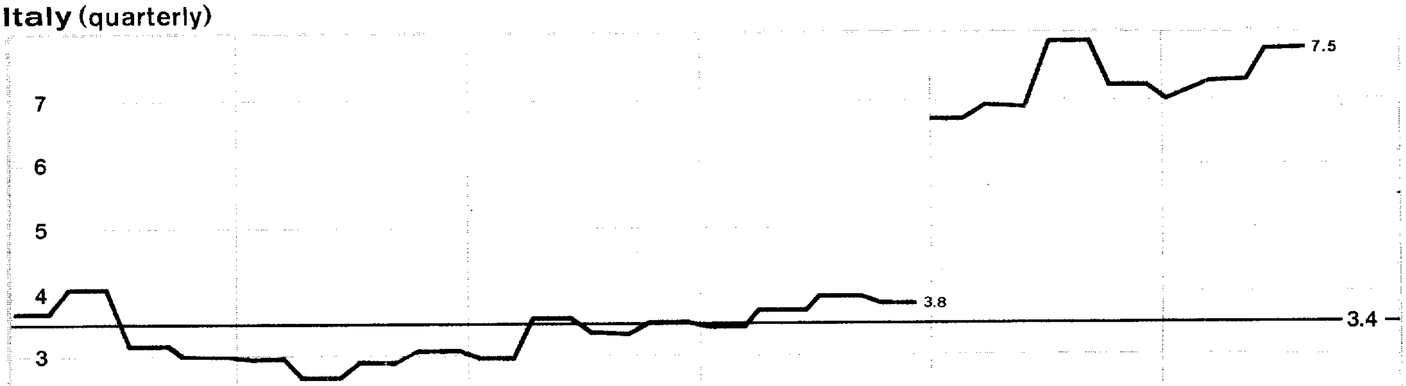
PERCENT



United Kingdom

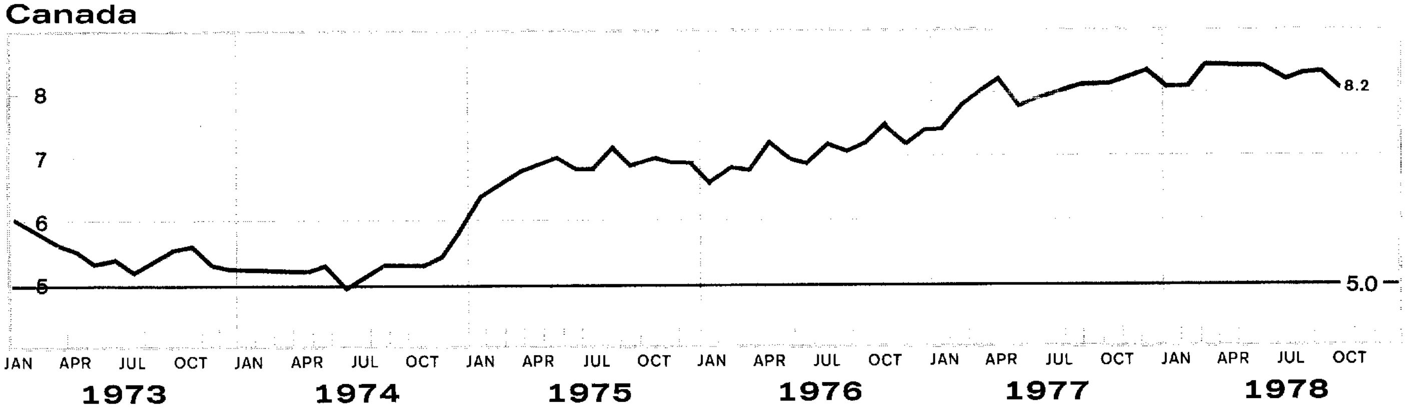


Italy (quarterly)



A labor force survey based on new definitions of economic activity sharply raised the official estimate of Italian unemployment in first quarter 1977. Data for earlier periods thus are not comparable. Italian data are not seasonally adjusted.

Canada



THOUSANDS OF PERSONS UNEMPLOYED

	LATEST MONTH		1 Year Earlier	3 Months Earlier
United States	OCT 78	5,870	6,688	6,193
Japan	SEP 78	1,300	1,120	1,310
West Germany	SEP 78	986	1,035	986
France	OCT 78	1,215	1,097	1,241
United Kingdom	NOV 78	1,339	1,430	1,392
Italy	78 III	1,658	1,692	1,455
Canada	OCT 78	910	887	927

NOTE: Data are seasonally adjusted. Unemployment rates for France are estimated. The rates shown for Japan and Canada are roughly comparable to US rates. For 1975-78, the rates for France and the United Kingdom should be increased by 5 percent and 15 percent respectively, and those for West Germany decreased by 20 percent to be roughly comparable with US rates. Beginning in 1977, Italian rates should be decreased by 50 percent to be roughly comparable to US rates.

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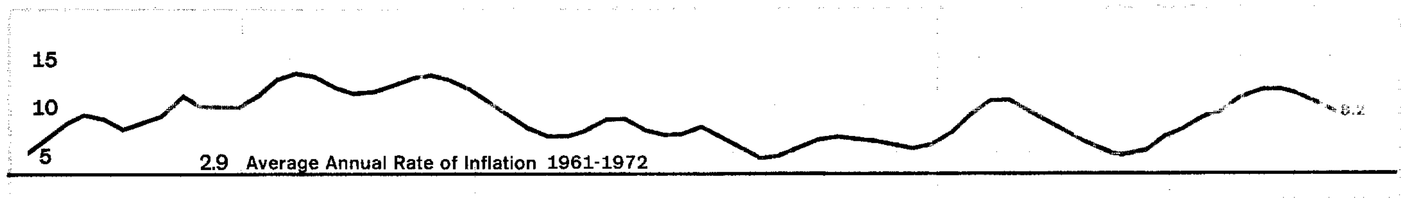
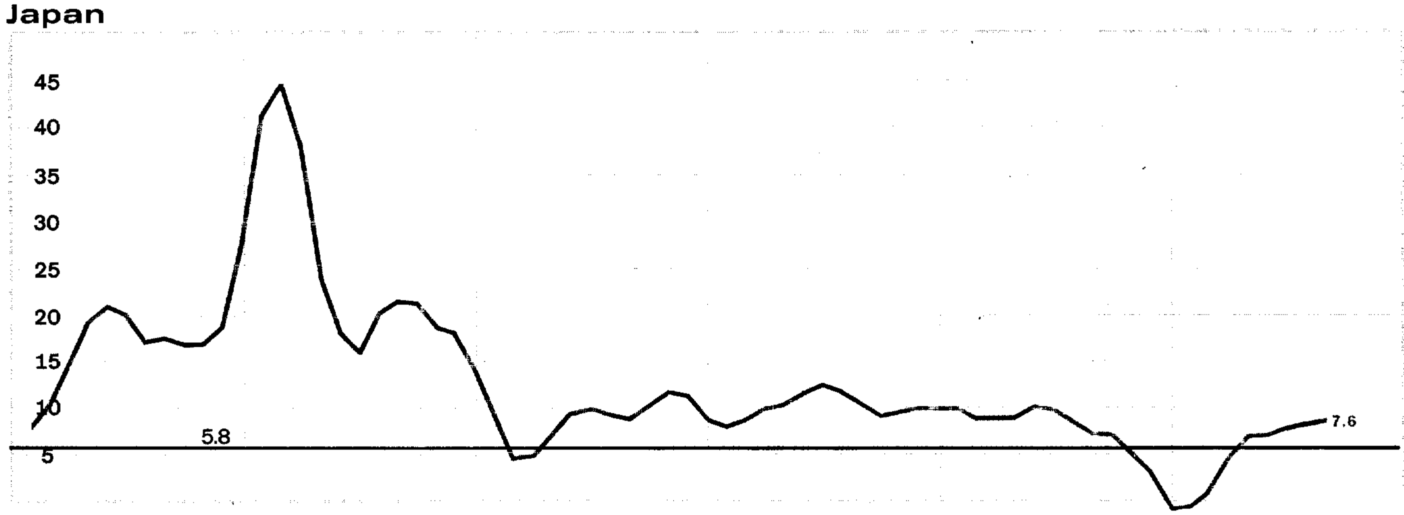
CONSUMER PRICE INFLATION

Percent, seasonally adjusted, annual rate[1]

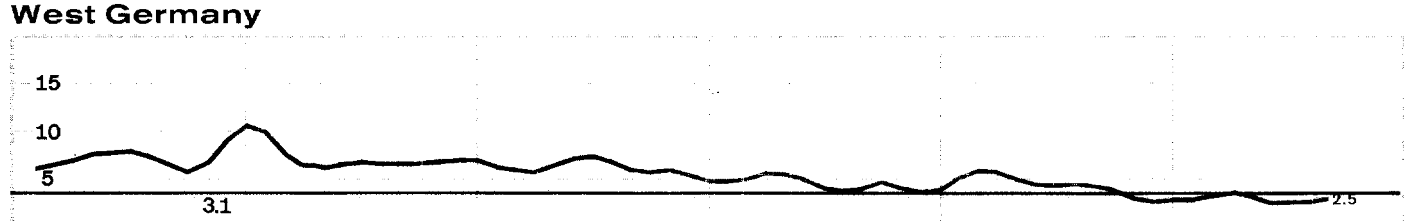
United States



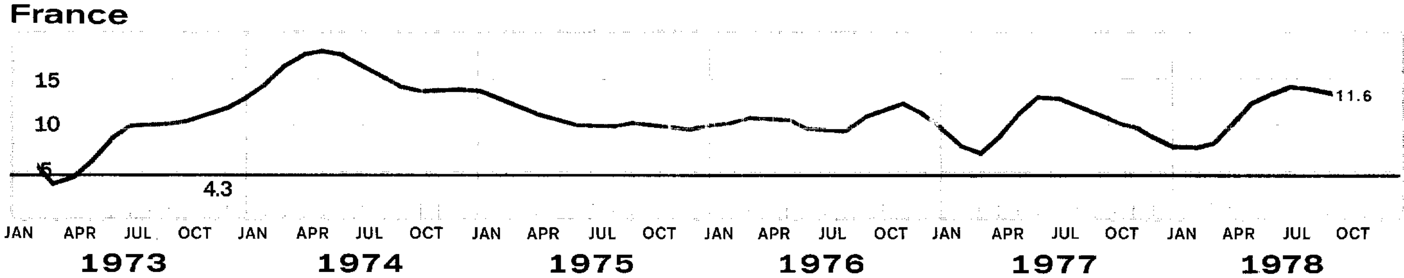
Japan



West Germany



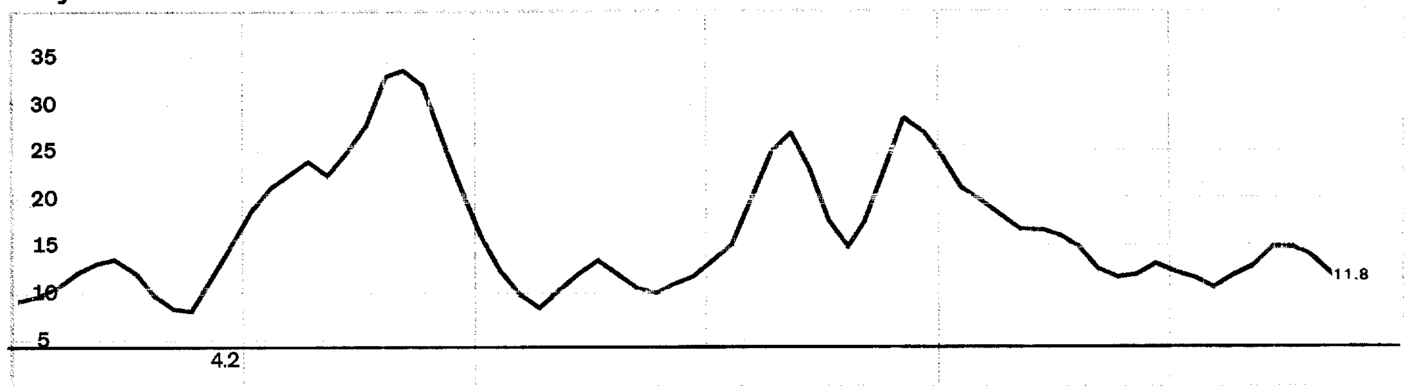
France



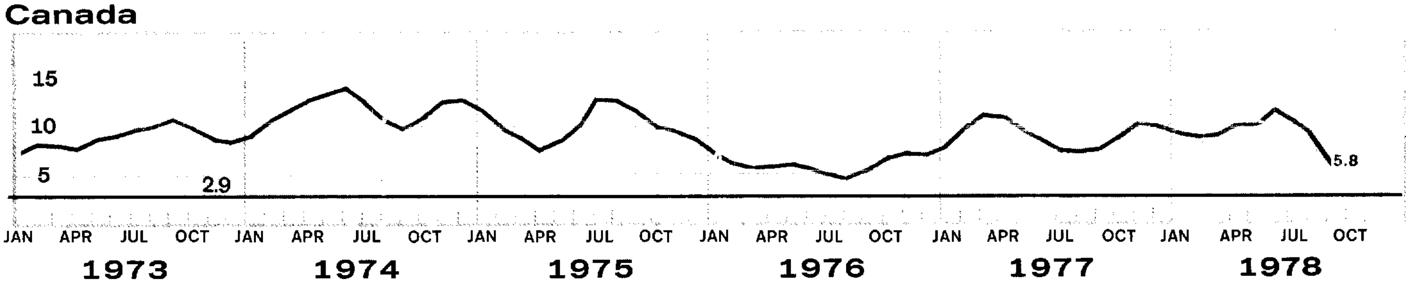
[1] Three-month average compared with previous three months.

United Kingdom

Italy



Canada



	LATEST MONTH	Percent Change from Previous Month	AVERAGE ANNUAL GROWTH RATE SINCE 1970	1 Year Earlier	3 Months Earlier[2]
United States	OCT 78	0.7	6.8	8.9	8.2
Japan	SEP 78	−0.2	9.7	3.7	7.6
West Germany	SEP 78	0	5.1	2.2	2.5
France	SEP 78	0.5	9.1	9.2	11.6

	LATEST MONTH	Percent Change from Previous Month	AVERAGE ANNUAL GROWTH RATE SINCE 1970	1 Year Earlier	3 Months Earlier[2]
United Kingdom	OCT 78	0.2	13.0	7.8	12.5
Italy	OCT 78	0.9	13.1	12.3	11.8
Canada	OCT 78	1.0	7.7	8.7	5.8

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[2]Average for latest 3 months compared with average for previous 3 months, seasonally adjusted at annual rate.

GNP [1]

Constant Market Prices

	Latest Quarter	Percent Change from Previous Quarter	Average Annual Growth Rate Since 1970	1 Year Earlier	Previous Quarter
United States	78 III	0.8	3.2	3.8	3.4
Japan	78 II	1.1	5.4	5.3	4.4
West Germany	78 II	2.1	2.7	4.2	8.8
France	78 I	1.8	4.1	1.4	7.4
United Kingdom	78 I	1.7	1.8	2.3	7.2
Italy	78 I	2.0	2.8	−0.8	8.2
Canada	78 III	0.9	4.6	4.1	3.7

[1] Seasonally adjusted.

RETAIL SALES [1]

Constant Prices

	Latest Month	Percent Change from Previous Month	Average Annual Growth Rate Since 1970	1 Year Earlier	3 Months Earlier [2]
United States	Sep 78	0.8	3.5	4.9	3.6
Japan	Jun 78	1.3	9.3	5.8	11.0
West Germany	Aug 78	0	2.7	2.5	6.6
France	Jan 78	9.9	0	1.0	10.5
United Kingdom	Oct 78	0	1.2	6.6	2.8
Italy	Jul 78	−7.0	2.9	3.0	28.3
Canada	Sep 78	6.3	4.6	7.3	6.3

[1] Seasonally adjusted.
[2] Average for latest 3 months compared with average for previous 3 months.

FIXED INVESTMENT [1]

Nonresidential; constant prices

	Latest Quarter	Percent Change from Previous Quarter	Average Annual Growth Rate Since 1970	1 Year Earlier	Previous Quarter
United States	78 III	1.0	3.2	8.5	4.0
Japan	78 II	1.8	1.5	5.1	7.6
West Germany	78 II	−0.5	1.2	7.8	−2.0
France	77 IV	0.8	4.0	4.7	3.3
United Kingdom	78 I	2.8	1.8	11.3	11.6
Italy	78 I	2.3	1.1	−19.6	9.4
Canada	78 III	3.2	6.5	5.9	13.6

[1] Seasonally adjusted.

WAGES IN MANUFACTURING [1]

	Latest Period	Percent Change from Previous Period	Average Annual Growth Rate Since 1970	1 Year Earlier	3 Months Earlier [2]
United States	Jul 78	1.2	7.6	7.6	6.8
Japan	Jun 78	1.2	15.8	5.6	4.0
West Germany	78 II	1.7	8.8	4.2	7.1
France	77 IV	3.1	14.1	12.0	12.9
United Kingdom	Jun 78	0.1	16.3	20.5	84.0
Italy	Aug 78	4.0	20.2	14.7	15.6
Canada	Aug 78	0.9	10.7	6.8	6.5

[1] Hourly earnings (seasonally adjusted) for the United States, Japan, and Canada; hourly wage rates for others. West German and French data refer to the beginning of the quarter.
[2] Average for latest 3 months compared with that for previous 3 months.

MONEY MARKET RATES

	Representative rates	Latest Date	Percent Rate of Interest	1 Year Earlier	3 Months Earlier	1 Month Earlier
United States	Commercial paper	Nov 29	10.15	6.53	8.07	9.33
Japan	Call money	Dec 1	4.25	4.63	4.38	4.13
West Germany	Interbank loans (3 months)	Nov 29	3.81	4.16	3.65	3.90
France	Call money	Dec 1	6.63	9.38	7.38	7.00
United Kingdom	Sterling interbank loans (3 months)	Nov 29	12.16	6.95	9.30	11.08
Canada	Finance paper	Nov 29	10.46	7.26	8.80	9.98
Eurodollars	Three-month deposits	Nov 29	11.66	6.98	8.81	10.98

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EXPORT PRICES
US $

	Latest Month	Percent Change from Previous Month	Average Annual Growth Rate Since 1970	1 Year Earlier	3 Months Earlier
United States	Aug 78	1.3	9.7	11.0	19.5
Japan	Sep 78	−1.0	11.7	31.3	12.8
West Germany	Aug 78	1.7	11.7	14.3	23.3
France	Jul 78	4.2	11.9	16.5	16.5
United Kingdom	Oct 78	2.8	12.5	22.2	36.3
Italy	Aug 78	2.6	11.4	10.9	28.2
Canada	Sep 78	−4.7	8.0	0.1	−0.8

EXPORT PRICES
National Currency

	Latest Month	Percent Change from Previous Month	Average Annual Growth Rate Since 1970	1 Year Earlier	3 Months Earlier
United States	Aug 78	1.3	9.7	11.0	19.5
Japan	Sep 78	−0.2	3.3	−6.6	−30.5
West Germany	Aug 78	−1.2	3.7	−1.5	−0.3
France	Jul 78	1.0	8.9	6.6	2.2
United Kingdom	Oct 78	0.3	14.9	7.7	8.2
Italy	Aug 78	2.6	15.4	5.2	9.5
Canada	Sep 78	−2.5	9.4	8.8	17.5

IMPORT PRICES
National Currency

	Latest Month	Percent Change from Previous Month	Average Annual Growth Rate Since 1970	1 Year Earlier	3 Months Earlier
United States	Aug 78	0.6	12.7	7.9	3.3
Japan	Sep 78	−0.4	5.0	−23.7	−37.8
West Germany	Aug 78	0.4	3.4	−3.4	7.6
France	Jul 78	−2.3	8.7	−2.1	−9.0
United Kingdom	Oct 78	0.5	17.0	4.1	5.2
Italy	Aug 78	0.8	18.4	1.8	1.3
Canada	Sep 78	−0.7	9.6	13.1	13.8

OFFICIAL RESERVES

	Latest Month: End of	Latest Month: Billion US $	Billion US $: Jun 1970	1 Year Earlier	3 Months Earlier
United States	Sep 78	18.8	14.5	19.0	18.9
Japan	Aug 78	29.2	4.1	17.8	27.7
West Germany	Sep 78	44.7	8.8	34.5	40.7
France	Apr 78	10.6	4.4	10.0	10.2
United Kingdom	Sep 78	17.6	2.8	17.3	17.3
Italy	Sep 78	14.1	4.7	10.5	13.2
Canada	Oct 78	5.1	9.1	4.2	4.6

CURRENT ACCOUNT BALANCE [1]

	Latest Period	Million US $	Cumulative (Million US $) 1978	1977	Change
United States [2]	78 II	−3,261	−10,119	−8,762	−1,357
Japan	Sep 78	1,900	13,982	6,442	7,540
West Germany	Aug 78	10	2,725	788	1,937
France	78 I	−84	−84	−1,628	1,543
United Kingdom	78 I	−803	−803	−896	94
Italy	78 I	288	288	−1,025	1,313
Canada	78 II	−1,201	−2,381	−2,658	277

[1] Converted to US dollars at the current market rates of exchange.
[2] Seasonally adjusted.

BASIC BALANCE [1]
Current and Long-Term Capital Transactions

	Latest Period	Million US $	Cumulative (Million US $) 1978	1977	Change
United States		No longer published [2]			
Japan	Sep 78	600	6,746	4,390	2,356
West Germany	Aug 78	−75	1,730	−3,308	5,038
France	78 I	−863	−863	−1,889	1,025
United Kingdom	78 I	−326	−326	543	−869
Italy	77 III	2,427	N.A.	N.A.	N.A.
Canada	78 II	883	327	−557	884

[1] Converted to US dollars at the current market rates of exchange.
[2] As recommended by the Advisory Committee on the Presentation of Balance of Payments Statistics, the Department of Commerce no longer publishes a basic balance.

EXCHANGE RATES
Spot Rate
As of 24 Nov 78

	US $ Per Unit	Percent Change from 19 Mar 73	1 Year Earlier	3 Months Earlier	17 Nov 78
Japan (yen)	0.0052	35.01	25.48	−1.36	−0.54
West Germany (Deutsche mark)	0.5195	46.13	16.44	3.07	−0.26
France (franc)	0.2265	2.07	9.89	−1.59	−0.28
United Kingdom (pound sterling)	1.9384	−21.60	6.27	−0.54	0.49
Italy (lira)	0.0012	−33.08	3.42	−1.75	0
Canada (dollar)	0.8500	−15.28	−5.72	−2.29	−0.25

TRADE-WEIGHTED EXCHANGE RATES [1]
As of 24 Nov 78

	Percent Change from 19 Mar 73	1 Year Earlier	3 Months Earlier	17 Nov 78
United States	−2.16	−6.59	0.88	0.29
Japan	38.96	22.73	−1.11	−0.41
West Germany	34.55	5.17	2.81	0.06
France	−11.05	−2.04	−2.74	−0.06
United Kingdom	−29.40	−2.95	−1.05	0.87
Italy	−43.55	−7.34	−2.37	0.28
Canada	−16.47	−8.27	−2.24	−0.19

[1] Weighting is based on each listed country's trade with 16 other industrialized countries to reflect the competitive impact of exchange rate variations among the major currencies.

Developed Countries: Direction of Trade [1]

Billion US $

	Exports to (f.o.b.)					
	World	Big Seven	Other OECD	OPEC	Communist	Other
UNITED STATES						
1975	107.59	46.93	16.25	10.77	3.37	30.27
1976	115.01	51.30	17.67	12.57	3.64	29.82
1977	120.17	53.92	18.54	14.02	2.72	30.97
1978						
1st Qtr	30.96	13.65	4.60	3.76	1.00	7.95
2d Qtr	37.05	16.14	5.25	4.43	1.44	9.79
Jul	10.94	4.51	1.51	1.38	0.40	3.14
Aug	11.61	4.95	1.65	1.32	0.37	3.33
JAPAN						
1975	55.73	16.56	6.07	8.42	5.17	19.52
1976	67.32	22.61	8.59	9.27	4.94	21.91
1977	81.12	28.03	9.72	12.03	5.33	26.01
1978						
1st Qtr	22.11	7.79	2.43	3.35	1.32	7.22
2d Qtr	24.07	8.60	2.44	3.55	1.74	7.74
Jul	8.58	2.99	1.02	1.33	0.51	2.73
Aug	8.18	2.94	0.86	1.19	0.58	2.60
WEST GERMANY						
1975	90.11	28.33	36.44	6.78	7.21	11.33
1976	101.93	33.44	41.86	8.25	7.02	11.36
1977	118.01	39.00	48.01	10.78	7.30	12.92
1978						
1st Qtr	32.45	11.17	13.05	2.76	1.97	3.49
2d Qtr	34.69	11.94	13.71	3.01	2.26	3.77
Jul	10.42	3.64	3.93	1.01	0.65	1.18
Aug	10.99	3.38	4.57	1.01	0.71	1.32
FRANCE						
1975	53.03	20.01	15.50	4.90	3.13	9.50
1976	57.05	22.49	16.15	5.08	3.23	10.10
1977	64.86	25.90	18.18	5.96	2.99	11.82
1978						
1st Qtr	18.49	7.66	5.07	1.57	0.66	3.53
2d Qtr	20.36	8.31	5.60	1.70	0.84	3.91
Jul	6.66	2.78	1.72	0.59	0.27	1.29
Aug	4.86	1.92	1.25	0.46	0.24	1.00
UNITED KINGDOM						
1975	44.46	12.54	16.59	4.55	1.56	9.21
1976	46.56	14.03	17.53	5.13	1.39	8.48
1977	58.04	17.29	22.20	6.77	1.63	10.14
1978						
1st Qtr	16.86	5.09	6.27	2.03	0.55	2.92
2d Qtr	17.60	5.38	6.59	2.20	0.51	2.92
Jul	5.80	1.84	2.10	0.71	0.16	1.00
Aug	5.77	1.73	2.18	0.69	0.15	1.02
ITALY						
1975	34.84	15.61	7.86	3.72	2.46	5.19
1976	37.25	17.58	8.73	4.27	2.18	4.48
1977	45.04	20.91	10.20	5.84	2.46	5.64
1978						
1st Qtr	10.80	5.22	2.40	1.37	0.48	1.33
2d Qtr	13.65	6.51	2.92	1.81	0.66	1.75
Jul	4.46	2.17	0.93	0.57	0.22	0.57
CANADA						
1975	34.07	26.30	1.72	0.71	1.20	4.14
1976	40.52	32.01	2.03	0.81	1.25	4.40
1977	43.08	34.83	2.20	1.17	1.08	3.80
1978						
1st Qtr	10.87	8.88	0.45	0.23	0.22	1.10
2d Qtr	12.66	10.32	0.56	0.23	0.36	1.19
Jul	3.53	2.81	0.13	0.08	0.15	0.36

[1] Source: International Monetary Fund, Direction of Trade.

Developed Countries: Direction of Trade[1]

Billion US $

	Imports from (c.i.f.)					
	World	Big Seven	Other OECD	OPEC	Communist	Other
UNITED STATES						
1975	103.42	49.81	8.83	18.70	0.98	25.09
1976	129.57	60.39	9.75	27.17	1.16	31.10
1977	156.71	70.48	11.09	35.45	1.23	38.47
1978						
1st Qtr	43.14	20.39	3.51	8.15	0.47	10.62
2d Qtr	45.99	22.53	3.68	7.90	0.48	11.40
Jul	15.67	7.56	1.29	2.62	0.14	4.04
Aug	14.96	6.92	1.11	2.91	0.19	3.83
JAPAN						
1975	57.85	16.93	6.08	19.40	3.36	12.07
1976	64.89	17.58	7.78	21.88	2.91	14.73
1977	71.32	18.88	7.92	24.33	3.41	16.79
1978						
1st Qtr	18.32	5.04	2.06	6.46	0.86	3.89
2d Qtr	19.39	5.51	2.30	5.95	1.01	4.63
Jul	6.47	1.95	0.80	1.82	0.30	1.60
Aug	6.92	2.17	0.81	1.92	0.32	1.70
WEST GERMANY						
1975	74.92	27.09	27.78	8.24	3.51	8.30
1976	88.14	31.28	32.64	9.73	4.38	10.11
1977	101.42	36.39	37.37	10.12	4.92	12.61
1978						
1st Qtr	28.24	10.11	10.88	2.32	1.39	3.55
2d Qtr	29.75	11.10	11.43	2.24	1.40	3.58
Jul	9.57	3.60	3.48	0.77	0.54	1.18
Aug	9.43	3.41	3.51	0.82	0.50	1.19
FRANCE						
1975	53.99	23.04	14.33	9.43	1.94	5.24
1976	64.38	27.81	16.93	11.36	2.24	6.04
1977	70.49	30.28	18.24	11.81	2.46	7.69
1978						
1st Qtr	19.76	8.58	5.40	3.05	0.64	2.09
2d Qtr	20.42	9.16	5.62	2.77	0.68	2.19
Jul	6.31	2.88	1.65	0.94	0.23	0.61
Aug	5.56	2.49	1.29	0.95	0.21	0.63
UNITED KINGDOM						
1975	53.93	18.47	18.52	6.91	1.68	8.36
1976	56.20	19.65	18.81	7.29	2.08	8.36
1977	64.06	24.03	21.38	6.32	2.42	9.91
1978						
1st Qtr	18.87	7.44	6.68	1.80	0.55	2.40
2d Qtr	19.31	7.66	7.27	1.30	0.59	2.48
Jul	6.42	2.58	2.17	0.58	0.21	0.88
Aug	6.30	2.48	2.08	0.60	0.23	0.91
ITALY						
1975	38.39	17.32	6.75	7.85	2.09	4.39
1976	43.43	19.35	8.05	8.12	2.65	5.26
1977	47.57	20.80	8.66	9.03	2.80	6.28
1978						
1st Qtr	11.26	5.03	2.10	2.18	0.51	1.44
2d Qtr	13.38	6.14	2.58	2.15	0.73	1.76
Jul	4.90	2.18	0.93	0.82	0.37	0.61
CANADA						
1975	38.67	29.78	1.70	3.43	0.32	3.43
1976	43.04	33.55	1.82	3.48	0.38	3.81
1977	44.91	35.75	1.79	3.06	0.34	3.98
1978						
1st Qtr	10.80	8.60	0.44	0.77	0.08	0.91
2d Qtr	13.52	11.08	0.50	0.71	0.09	1.13
Jul	3.88	3.05	0.17	0.26	0.04	0.35

[1] Source: International Monetary Fund, Direction of Trade.

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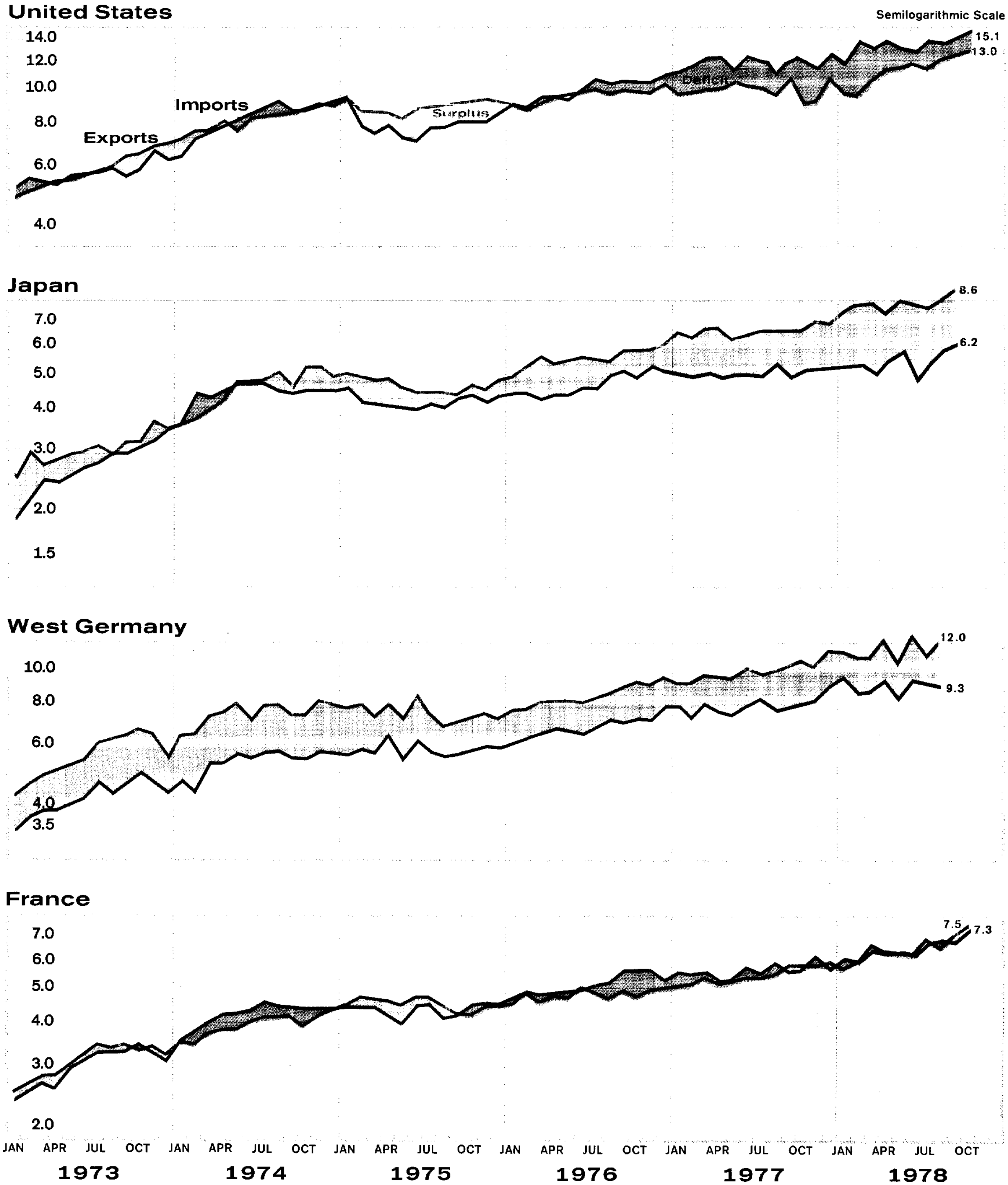
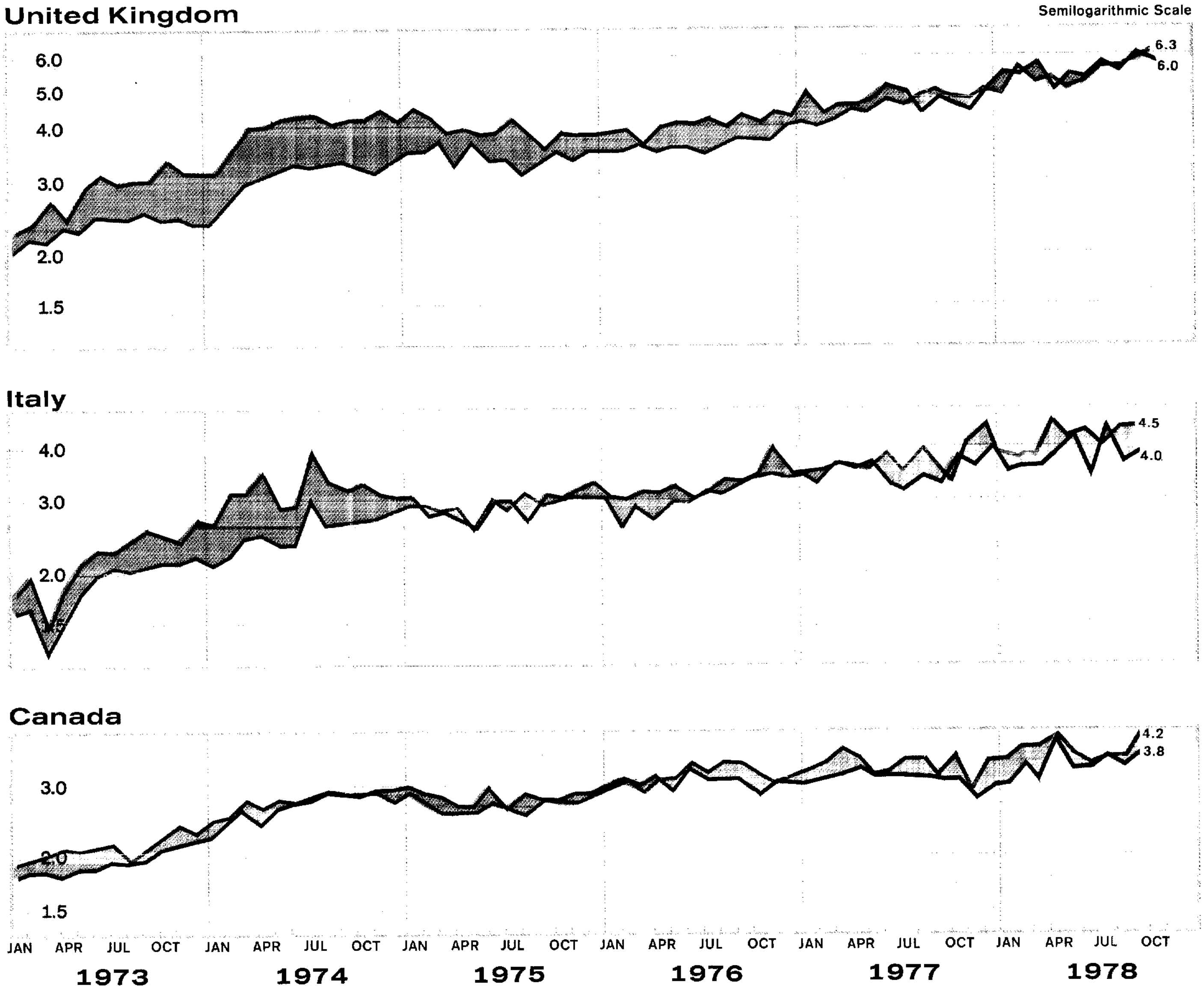
FOREIGN TRADE **BILLION US $, f.o.b., seasonally adjusted**





	Latest Month	Million US $	Cumulative (Million US $) 1978	1977	Change
United States	OCT 78	13,011	117,064	100,727	16.2%
		15,138	141,859	121,889	16.4%
	Balance	−2,128	−24,795	−21,162	−3,633
Japan	SEP 78	8,618	71,117	58,515	21.5%
		6,216	50,210	46,130	8.8%
	Balance	2,402	20,907	12,385	8,522
West Germany	AUG 78	11,974	90,233	76,223	18.4%
		9,258	74,131	62,846	18.0%
	Balance	2,715	16,102	13,378	2,725
France	OCT 78	7,483	65,411	53,441	22.4%
		7,311	64,823	55,628	16.5%
	Balance	171	589	−2,187	2,776
United Kingdom	OCT 78	6,264	56,265	46,177	21.8%
		6,025	57,957	49,019	18.2%
	Balance	239	−1,692	−2,842	1,149
Italy	SEP 78	4,509	37,843	32,756	15.5%
		4,005	35,250	32,347	9.0%
	Balance	504	2,593	409	2,184
Canada	SEP 78	4,214	34,089	31,259	9.1%
		3,769	31,863	29,945	6.4%
	Balance	445	2,226	1,314	912

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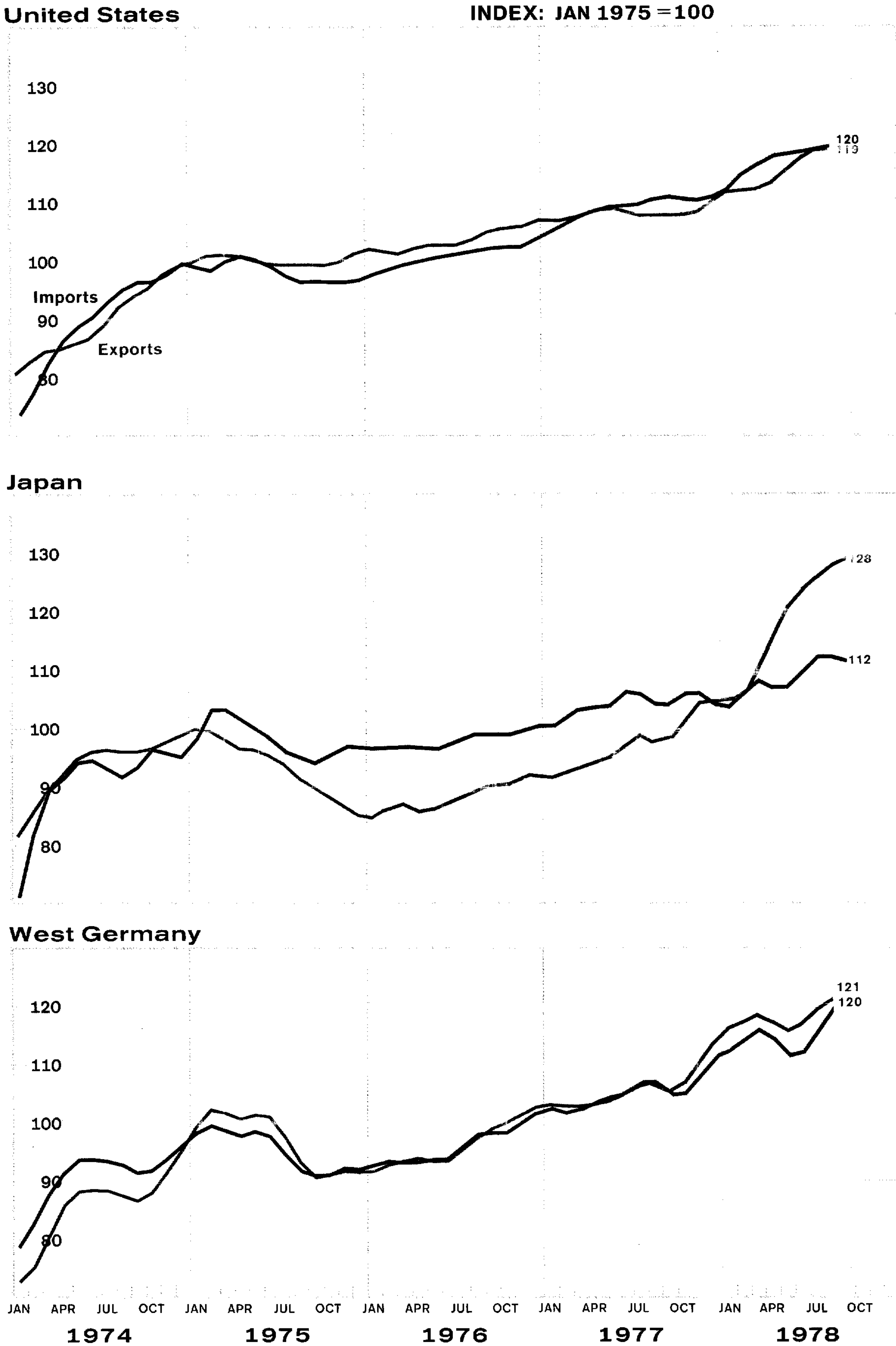
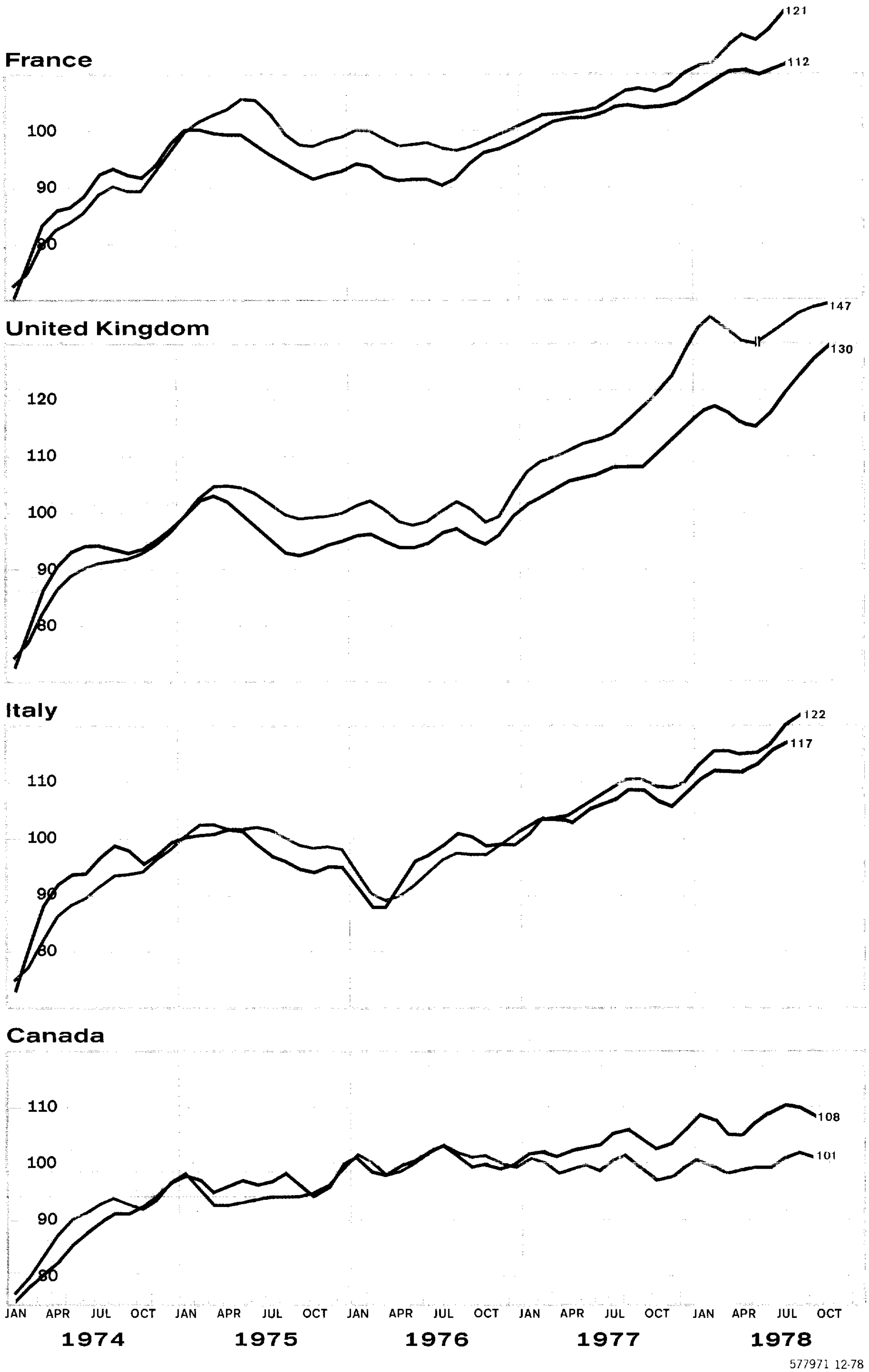
FOREIGN TRADE PRICES IN US $[1]



[1]Export and import plots are based on five-month weighted moving averages.


France
121
112
100
90
80
United Kingdom
147
130
120
110
100
90
80
Italy
122
117
110
100
90
80
Canada
110
100
90
80
108
101
JAN APR JUL OCT JAN APR JUL OCT JAN APR JUL OCT JAN APR JUL OCT JAN APR JUL OCT
1974 1975 1976 1977 1978
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SELECTED DEVELOPING COUNTRIES

INDUSTRIAL PRODUCTION [1]

	Latest Period	Percent Change from Previous Period	Average Annual Growth Rate Since 1970	1 Year Earlier	3 Months Earlier [2]
India	Jun 78	−1.8	5.1	5.4	18.2
South Korea	Jul 78	−2.0	22.0	20.2	23.2
Mexico	Jun 78	0	6.2	8.5	27.7
Nigeria	78 I	6.8	11.4	0.5	30.0
Taiwan	Aug 78	3.0	16.3	31.0	42.1

[1] Seasonally adjusted.
[2] Average for latest 3 months compared with average for previous 3 months.

MONEY SUPPLY [1]

	Latest Month	Percent Change from Previous Month	Average Annual Growth Rate Since 1970	1 Year Earlier	3 Months Earlier [2]
Brazil	Mar 78	2.7	36.4	43.3	34.7
India	Apr 78	2.5	14.0	16.3	13.1
Iran	Jul 78	1.8	28.5	28.9	20.7
South Korea	Aug 78	5.8	31.3	30.9	26.2
Mexico	Jul 78	1.9	21.0	37.3	26.4
Nigeria	May 78	−2.4	33.5	9.3	14.8
Taiwan	May 78	0.6	25.1	32.8	40.8
Thailand	Apr 78	−3.2	13.3	12.5	32.3

[1] Seasonally adjusted.
[2] Average for latest 3 months compared with average for previous 3 months.

CONSUMER PRICES

	Latest Month	Percent Change from Previous Month	Average Annual Growth Rate Since 1970	1 Year Earlier
Brazil	Jun 78	4.1	28.3	38.0
India	Jun 78	1.2	7.5	2.2
Iran	Aug 78	−0.4	11.8	7.8
South Korea	Sep 78	2.2	14.6	15.6
Mexico	Aug 78	1.0	15.1	17.0
Nigeria	Dec 77	3.1	16.6	31.3
Taiwan	Aug 78	1.9	9.8	−0.6
Thailand	Jun 78	0.9	8.7	8.4

WHOLESALE PRICES

	Latest Month	Percent Change from Previous Month	Average Annual Growth Rate Since 1970	1 Year Earlier
Brazil	May 78	3.4	28.4	34.5
India	May 78	0.6	8.0	−2.8
Iran	Aug 78	−1.3	10.0	7.8
South Korea	Sep 78	2.0	15.8	12.3
Mexico	Aug 78	−0.2	16.3	13.8
Taiwan	Aug 78	0.4	8.1	1.6
Thailand	Mar 78	−0.1	9.4	5.8

EXPORT PRICES
US $

	Latest Month	Percent Change from Previous Month	Average Annual Growth Rate Since 1970	1 Year Earlier
Brazil	Feb 78	0.4	14.0	1.5
India	Sep 77	−2.7	10.0	18.4
South Korea	78 II	2.4	8.8	8.9
Taiwan	Jun 78	1.9	11.3	3.3
Thailand	Dec 77	0.1	10.2	−7.8

OFFICIAL RESERVES

	Latest Month: End of	Latest Month: Million US $	Million US $: Jun 1970	Million US $: 1 Year Earlier	Million US $: 3 Months Earlier
Brazil	Feb 78	6,733	1,013	5,878	5,994
India	Jul 78	6,117	1,006	4,395	6,064
Iran	Sep 78	11,659	208	11,463	12,068
South Korea	Aug 78	4,354	602	3,765	4,101
Mexico	Mar 78	1,766	695	1,422	1,723
Nigeria	Sep 78	1,558	148	4,597	2,387
Taiwan	Jun 78	1,462	531	1,411	1,433
Thailand	Sep 78	2,269	978	1,925	2,161

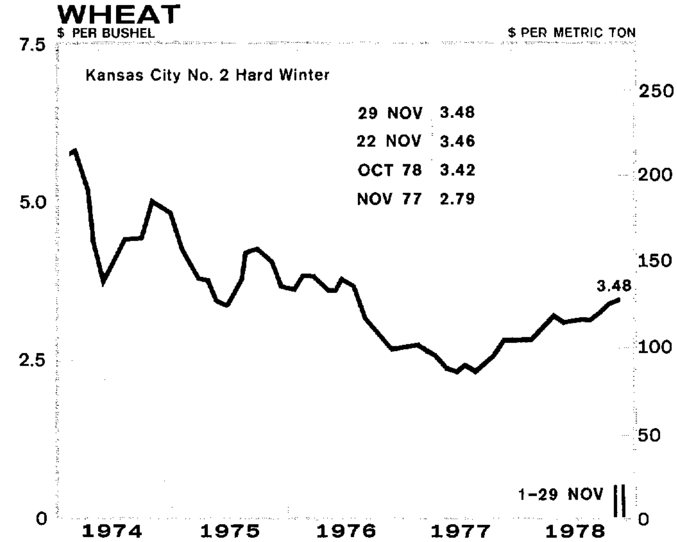
FOREIGN TRADE, f.o.b.

	Latest Period		Latest 3 Months Percent Change from: 3 Months Earlier [1]	Latest 3 Months Percent Change from: 1 Year Earlier	Cumulative (Million US $): 1978	Cumulative (Million US $): 1977	Cumulative (Million US $): Change
Brazil	May 78	Exports	84.8	−3.7	4,743	4,979	−4.7%
	May 78	Imports	26.6	1.4	5,110	4,939	3.5%
	May 78	Balance			−367	40	−407
India	Mar 78	Exports	−19.6	−13.5	1,476	1,707	−13.5%
	Mar 78	Imports	−24.1	9.7	1,444	1,316	9.7%
	Mar 78	Balance			32	391	−358
Iran	Aug 78	Exports	2.9	10.4	15,868	15,635	1.5%
	May 78	Imports	−1.6	1.6	5,705	5,259	8.5%
	May 78	Balance			4,087	4,871	−783
South Korea	Jul 78	Exports	39.3	23.5	6,749	5,351	26.1%
	Jul 78	Imports	83.0	29.2	7,284	5,695	27.9%
	Jul 78	Balance			−535	−344	−191
Mexico	Jul 78	Exports	78.8	29.8	2,867	2,453	16.9%
	Jul 78	Imports	225.3	41.9	3,596	2,751	30.7%
	Jul 78	Balance			−728	−298	−430
Nigeria	78 II	Exports	86.7	−26.0	1,808	2,526	−28.4%
	78 I	Imports	579.5	115.0	1,808	841	115.0%
	78 I	Balance			−974	368	−1,342
Taiwan	Aug 78	Exports	84.2	38.7	8,044	5,884	36.7%
	Aug 78	Imports	68.9	32.5	6,439	5,119	25.8%
	Aug 78	Balance			1,605	765	840
Thailand	Jul 78	Exports	7.1	10.4	2,246	2,099	7.0%
	Jul 78	Imports	51.5	13.8	2,697	2,330	15.7%
	Jul 78	Balance			−450	−231	−219

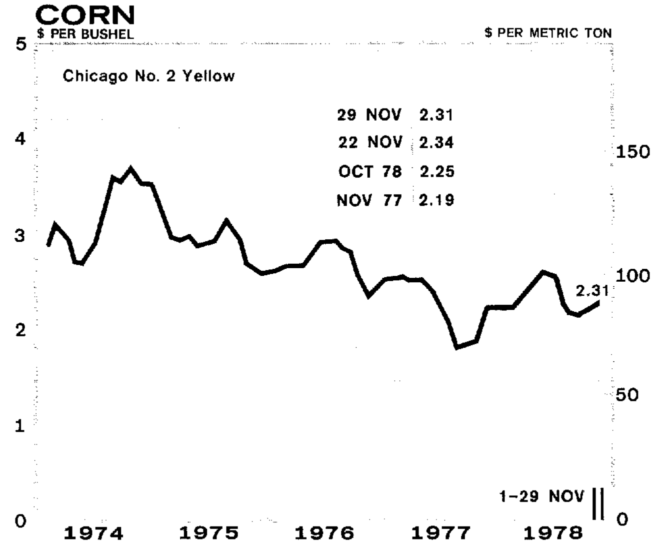
[1] At annual rates.

AGRICULTURAL PRICES MONTHLY AVERAGE CASH PRICE

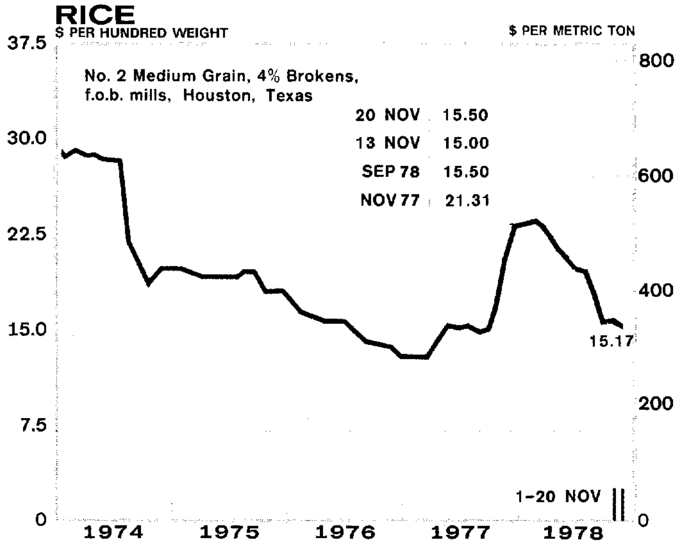
WHEAT



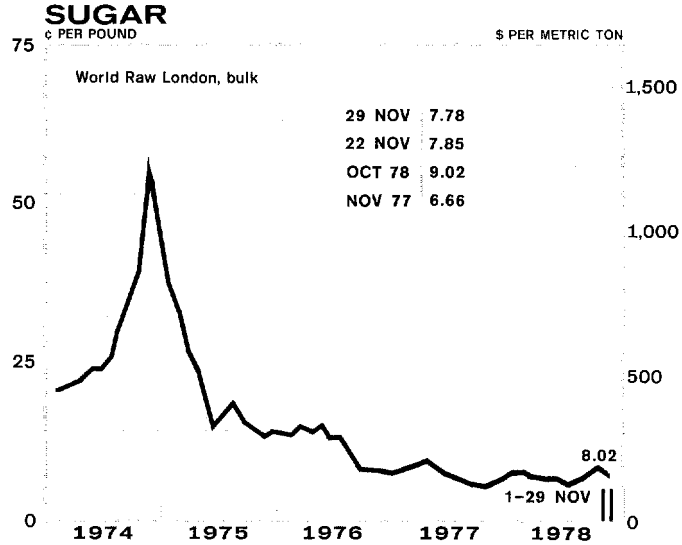
CORN



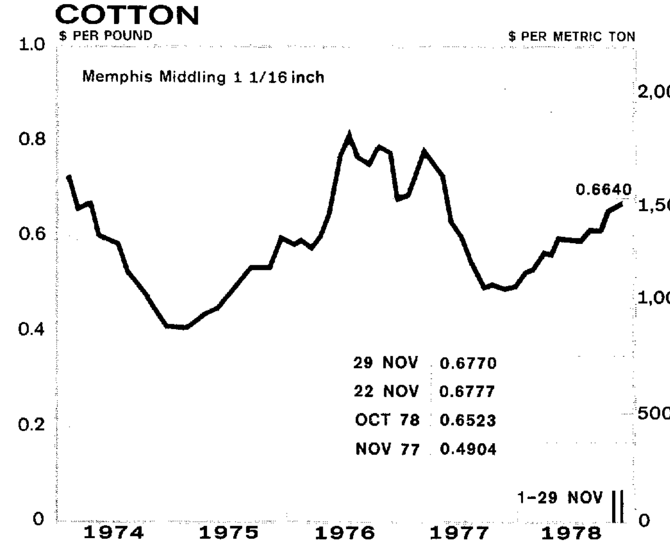
RICE



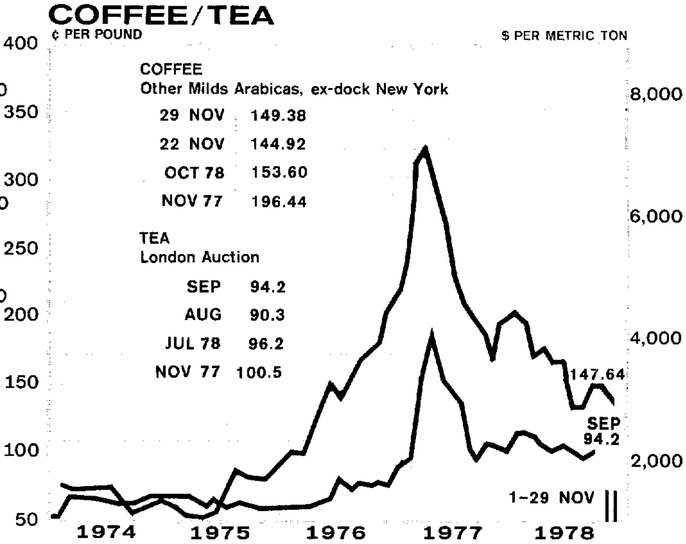
SUGAR



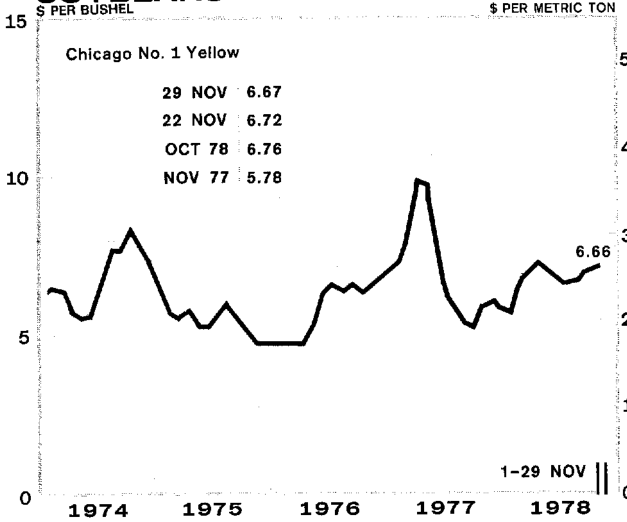
COTTON



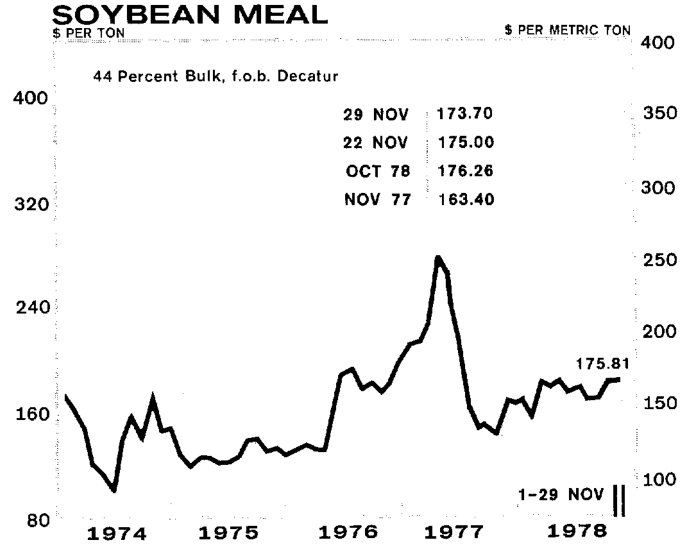
COFFEE/TEA



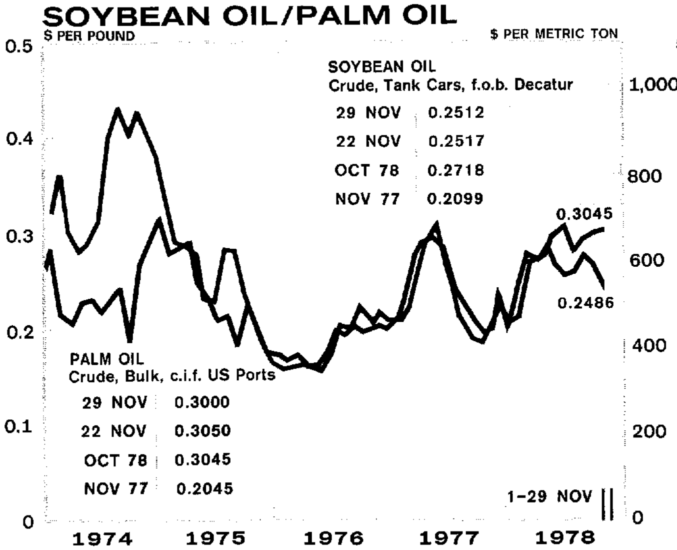
SOYBEANS



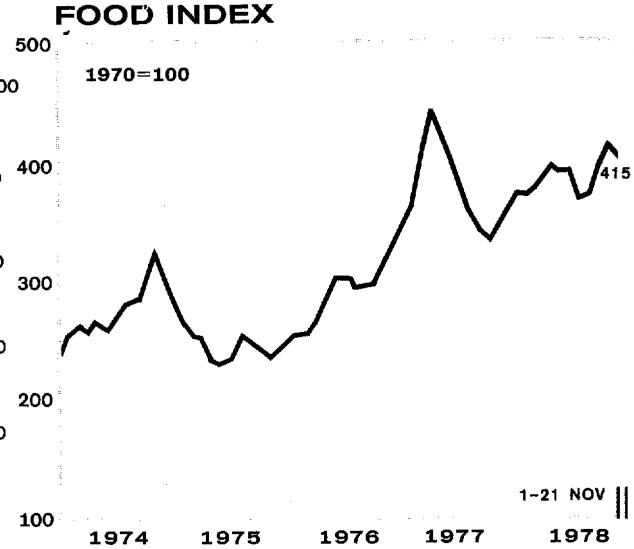
SOYBEAN MEAL



SOYBEAN OIL/PALM OIL



FOOD INDEX



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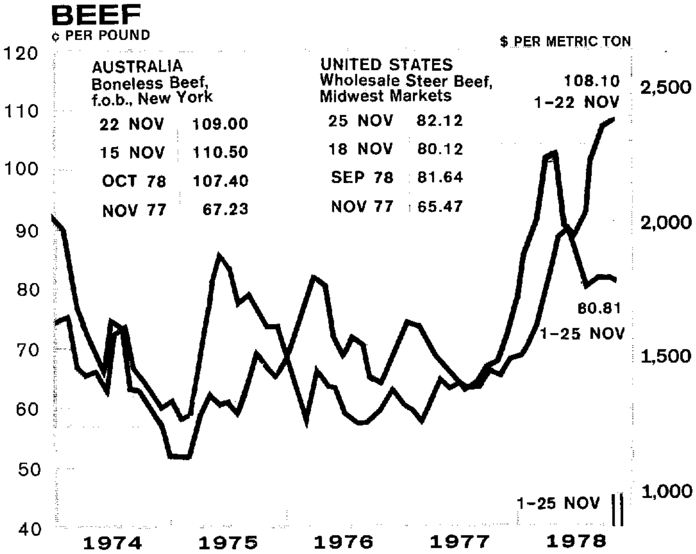
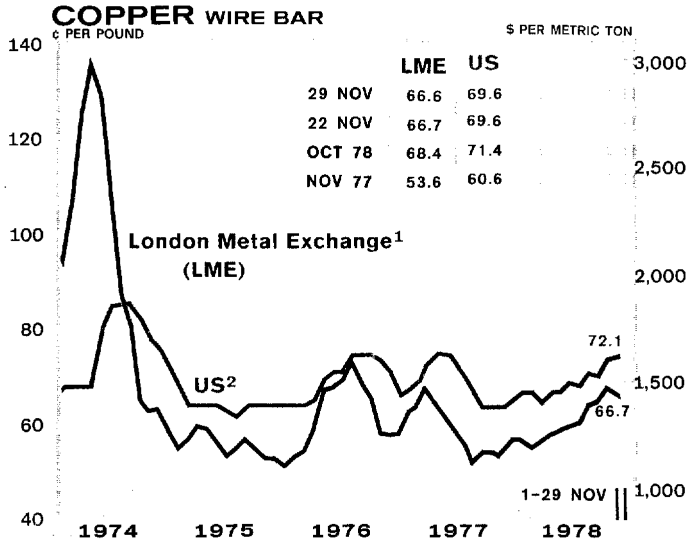
BEEF



NOTE: The food index is compiled by the Economist for 16 food commodities which enter international trade. Commodities are weighted by 3-year moving averages of imports into industrialized countries.

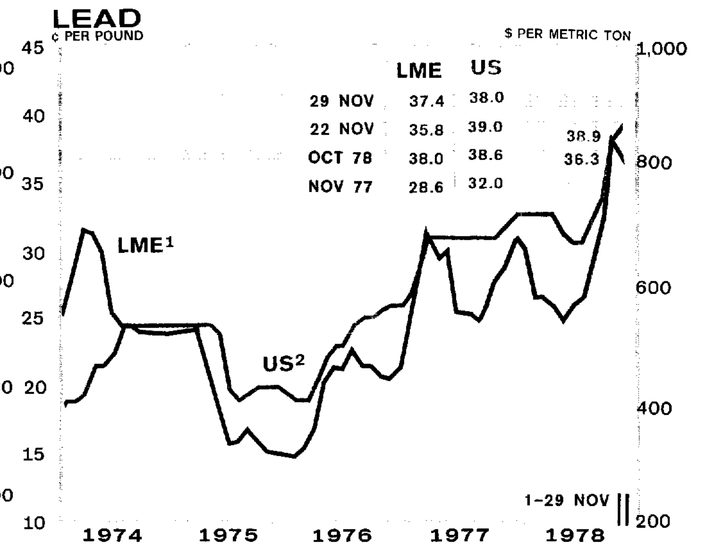
INDUSTRIAL MATERIALS PRICES MONTHLY AVERAGE CASH PRICE

COPPER WIRE BAR



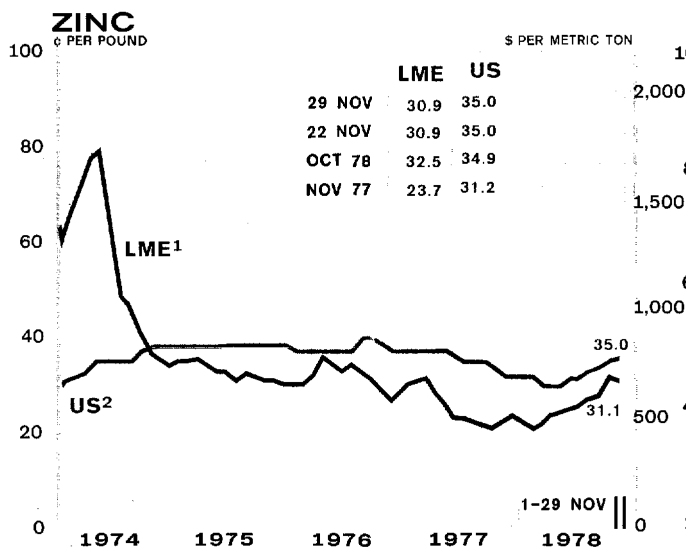
	LME	US
29 NOV	66.6	69.6
22 NOV	66.7	69.6
OCT 78	68.4	71.4
NOV 77	53.6	60.6

LEAD



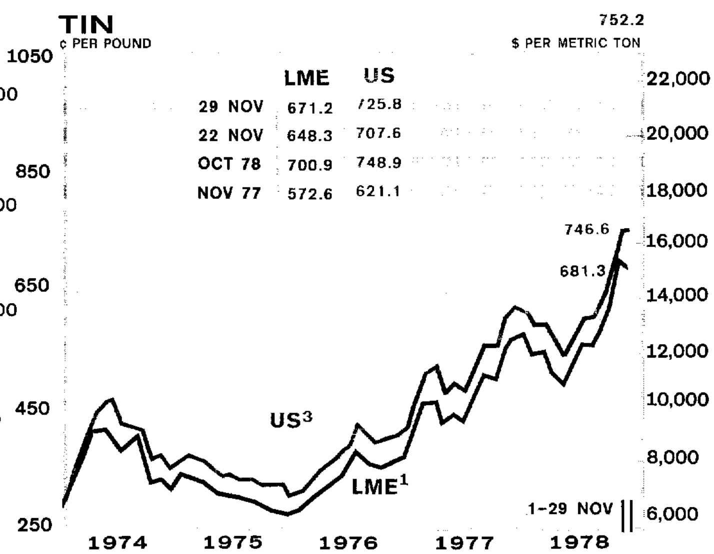
	LME	US
29 NOV	37.4	38.0
22 NOV	35.8	39.0
OCT 78	38.0	38.6
NOV 77	28.6	32.0

ZINC



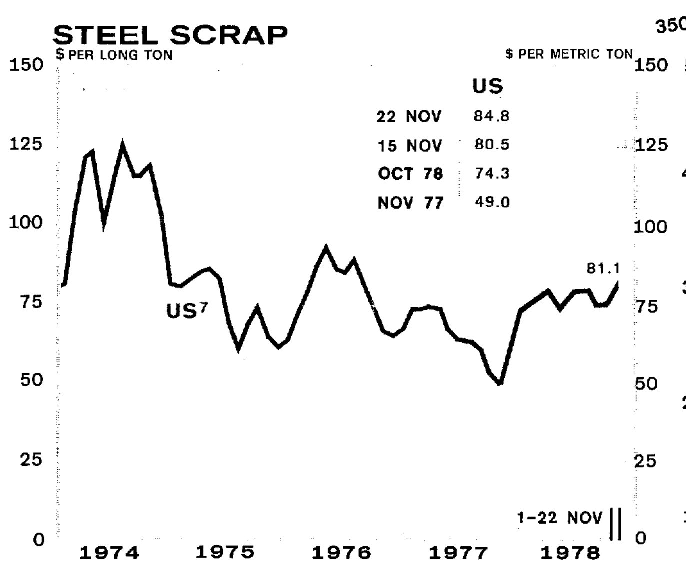
	LME	US
29 NOV	30.9	35.0
22 NOV	30.9	35.0
OCT 78	32.5	34.9
NOV 77	23.7	31.2

TIN



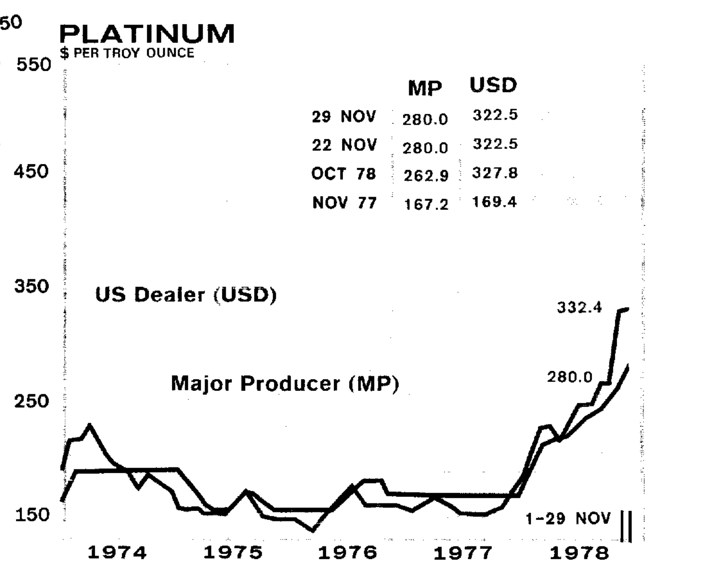
	LME	US
29 NOV	671.2	725.8
22 NOV	648.3	707.6
OCT 78	700.9	748.9
NOV 77	572.6	621.1

STEEL SCRAP



	US
22 NOV	84.8
15 NOV	80.5
OCT 78	74.3
NOV 77	49.0

PLATINUM

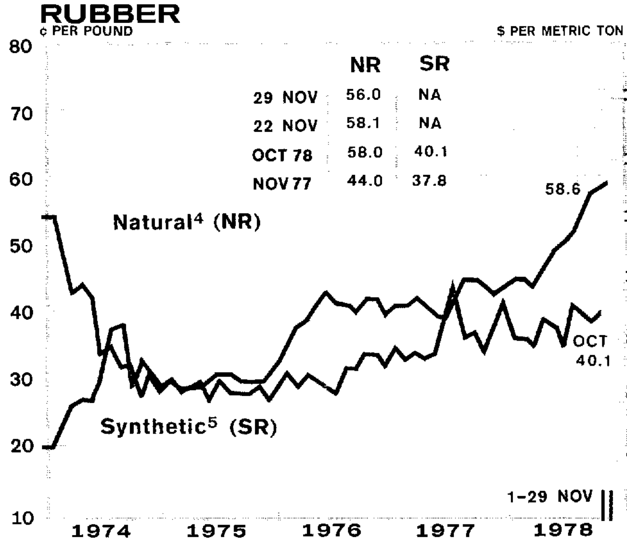


	MP	USD
29 NOV	280.0	322.5
22 NOV	280.0	322.5
OCT 78	262.9	327.8
NOV 77	167.2	169.4

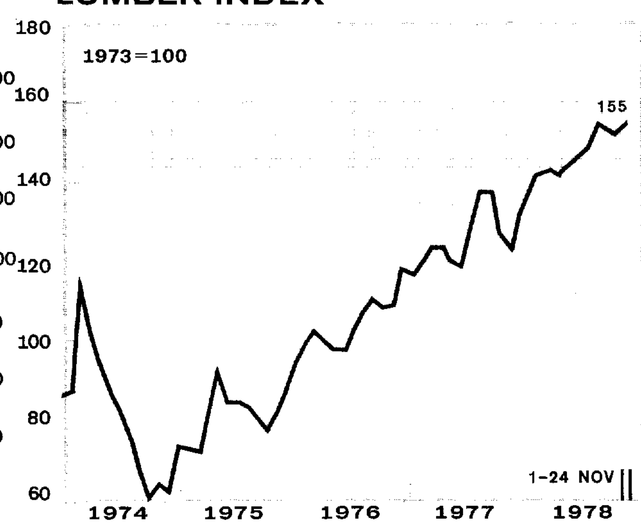
SELECTED MATERIALS

			CURRENT	MAY 78	NOV 77	NOV 76
ALUMINUM	Major US Producer	¢ per pound	55.25	53.00	53.00	48.00
US STEEL	Composite	$ per long ton	419.31	395.81	359.36	327.00
IRON ORE	Non-Bessemer Old Range	$ per long ton	22.55	21.43	21.43	20.51
CHROME ORE	Russian, Metallurgical Grade	$ per metric ton	NA	NA	150.00	150.00
CHROME ORE	S. Africa, Chemical Grade	$ per long ton	56.00	56.00	58.50	42.00
FERROCHROME	US Producer, 66-70 Percent	¢ per pound	42.00	42.00	41.00	43.00
NICKEL	Composite US Producer	$ per pound	2.02	2.06	2.07	2.41
MANGANESE ORE	48 Percent Mn	$ per long ton	67.20	67.20	72.24	72.00
TUNGSTEN ORE	Contained Metal	$ per metric ton	18,159.00	17,169.00	22,113.00	18,082.00
MERCURY	New York	$ per 76 pound flask	157.00	150.55	138.43	134.50
SILVER	LME Cash	¢ per troy ounce	595.55	514.64	482.70	436.90
GOLD	London Afternoon Fixing Price	$ per troy ounce	199.00	176.31	162.10	130.44

RUBBER



LUMBER INDEX[6]



INDUSTRIAL MATERIALS INDEX

[1] Approximates world market price frequently used by major world producers and traders, although only small quantities of these metals are actually traded on the LME.

[2] Producers' price, covers most primary metals sold in the U S.

[3] As of 1 Dec 75, US tin price quoted is "Tin NY lb composite."

[4] Quoted on New York market.

[5] S-type styrene, US export price.

[6] This index is compiled by using the average of 13 types of lumber whose prices are regarded as bellwethers of US lumber construction costs.

[7] Composite price for Chicago, Philadelphia, and Pittsburgh.

NOTE: The industrial materials index is compiled by the Economist for 19 raw materials which enter international trade. Commodities are weighted by 3-year moving averages of imports into industrialized countries.

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